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World Business Newspaper http://www.FT.com TUESDAY MAY 6 1997

Europe's markets reach peaks after calming US news

Six European financial markets recorded all-time highs after last week's US economic data had reduced fears that the US Federal Reserve was about to raise interest rates. In Zurich, the Swiss Market Index closed above 5,000 for the first time and in Frankfurt the DAX index rose in post-bourse trading to a closing peak of 3,565.69. The other record-setters were Amsterdam, Brussels, Lisbon and Madrid. Page 17; World stocks, Page 38

Mostly made in the USA: The US Federal Trade Commission proposed lowering the domestic content required for a product bearing a "Made in USA" label. *Currently, products with* USA labels must be almost 100 per cent domestically made. Under the proposal a product could use the label if 75 per cent of manufacturing costs are incurred in the US. Page 6

Euros jingle in Berlin: People in Berlin began exchanging D-marks at a rate of two per euro as part of a test-run promoted by the European Commission to persuade a sceptical German public of the virtues of a single European currency. For this week at least the euros have purchasing power in more than 50 shops and restaurants in the main retail centres of east and west Berlin. Page 16

Liffe, the London International Financial Futures and Options Exchange is clearing space on its trading floor for dealing in US Treasury bond futures, and the Chicago Board of Trade is gearing up for dealing in Germany's 10-year Bund futures and options as the two rival markets try a new era of co-operation. Page 17

Moscow plans bond issue: The City of Moscow is to launch Russia's first non-sovereign bond in the international capital markets later this month. The eurobond issue, totalling between $300m and $500m, will have a maturity of between three and five years. Page 17

DNA dual: Affymetrix, a US biotechnology company 34 per cent owned by Glaxo Wellcome of the UK, is challenging Oxford University and a professor, Ed Southern, over ownership of one of the most powerful medical innovations of recent years, the DNA chip, which analyses human genetic make-up using silicon chips containing bits of DNA. Page 17

UK Labour reaches out to Europe: The UK's new Labour government mounted a charm offensive with its European Union partners, *declaring that Europe was an "opportunity not a threat"* for Britain. Page 16

Japanese cars set to roll: Japan's car industry has slashed costs and, helped by the weaker yen, is poised to make fresh inroads into the world's car markets, according to a new study. Japan's share of the west European market has been about 11 per cent for several years but is forecast to climb to 14 per cent by the end of the decade. Page 6

Israeli indicted over sale to Iran: Millionaire Nahum Manbar was indicted in Tel Aviv district court on charges of assisting an enemy nation and endangering Israeli security by selling the Iranian government $16m worth of chemical components used to make mustard and nerve gas. He could face a sentence of 15 years to life in prison.

Moscow calls for 20% budget cut: Russia wants to cut this year's budget by 20 per cent because of a drastic shortfall in taxes and other revenues. The ITAR-Tass news agency said plans were sent to parliament for spending cuts of $18.5bn from the 1997 budget of $92bn.

Air rage: Turkish Airlines fired two pilots who fought in the cockpit of a passenger jet as it flew at 11,000 feet with 240 people aboard. News reports said they argued over altitude data on the Bangkok-Istanbul flight.

Rwandans fly home from tense Zaire

Rwandan refugees wait to board a United Nations jet in *Kisangani, Zaire,* for return to the homeland they fled during the genocide of 1994. So far, 7,000 of 40,000 refugees have returned to Rwanda. US tries to avert bloodshed, Page 16

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■ STOCK MARKET INDICES

Tokyo Nikkei	closed	
New York lunchtime		
Dow Jones Ind Ave	7074.81	(+3.61)
S&P Composite	814.36	(+1.39)

■ US LUNCHTIME RATES

Federal Funds:	$5\frac{1}{2}$%
3-mo Treas Bills: Yld	5.183%
Long Bond	$95\frac{7}{16}$
Yield	6.902%

■ GOLD

New York Comex	$343	(340.3)

■ STERLING

New York lunchtime:

$	1.61975

■ DOLLAR

New York lunchtime:

DM	1.73225
FFr	5.84505
SFr	1.4745
Y	126.695

Tokyo Y closed

London markets closed

Independent auditor finds no possibility of economic deposits in Indonesian mine

Busang gold tests were falsified

By Clay Harris in London, Bernard Simon in Toronto and Manuela Saragosa in Jakarta

Canadian mining group's shares suspended after damning report

The entrance to Bre-X's Busang gold project

Bre-X's claim to have found the world's biggest gold deposit was based on "tampering and falsification without precedent in the history of mining"

A Canadian company's claim to have found the world's biggest gold deposit in the rainforest of Borneo was based on "tampering and falsification without precedent in the history of mining", according to an independent technical audit.

The damning report detailing tests on samples from the Busang site in Indonesia, discovered by Bre-X Minerals, sent shares in other small gold exploration companies lower on world stock markets – sharply so in Toronto.

Trading in Bre-X itself, once valued at C$6.8bn (US$4.8bn) was suspended indefinitely.

The audit by Strathcona Mineral Services, a Canadian testing company brought in by Bre-X after doubts first surfaced, sent shockwaves from Jakarta to Calgary.

Indonesia, where President Suharto has an indirect interest in Bre-X's local partner, said it would take legal action if laws had been broken.

The government is also likely to tighten controls over the hundreds of mineral exploration companies operating throughout the country.

Glowing reports by Bre-X had made Busang a glittering prize fought over by leading international mining groups *and Indonesian financial interests.* In that scramble, Mr George Bush, former US president, and Mr Brian Mulroney, former Canadian prime minister, took part as lobbyists.

Busang caught the imagination of fund managers, enthusiastic gold bugs and novice investors alike.

The first sign that something might be amiss was the mysterious death of Mr Michael de Guzman, a senior geologist who plunged from a helicopter on his way to an important meeting at the mine. Bre-X now faces a barrage of lawsuits from disappointed shareholders.

Strathcona's report, published late on Sunday, said it had found only trace elements of gold in samples and there was "virtually no possibility of an economic gold deposit."

After an audit it described as "quite conclusive", it said: "The magnitude of the tampering with core samples that we believe has occurred, and resulting falsification of assay values, is of a scale and over a period of time and with a precision that, to our knowledge, is without precedent in the history of mining anywhere in the world."

Mr David Walsh, Bre-X's founder and chairman, said in Calgary he was "devastated". He added: "We share the shock and dismay of our shareholders and others that the gold we thought we had at Busang appears not to be there."

Freeport McMoRan Copper & Gold, the US mining company, beat North American rivals Barrick Gold and Placer Dome to win the right to develop Busang and to take a 15 per cent share.

Yesterday Freeport withdrew from the project, saying that Strathcona's report confirmed its own tests. Nusamba, the Indonesian partner, also withdrew.

The report shed little light on how the tampering was done, although it suggested it took place before samples reached the Indonesian assay laboratory used by Bre-X.

Bre-X has engaged accountants Price Waterhouse and Forensic Investigative Services to work with Strathcona to determine how "the data on which Bre-X relied in its prior public statements about Busang could have been generated."

Its last official estimate of Busang's resources was 71m ounces of gold, although Mr John Felderhof, head of exploration, publicly supported a figure of 200m ounces.

His role is likely to be closely scrutinised. Mr Felderhof, who has spent many years in Indonesia, was not in Calgary for a directors' meeting on Sunday. He participated from his home in the Cayman Islands.

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Fiasco casts cloud, page 22
World stocks, Page 28

Medical equipment maker buys clinics

Sweden's Gambro pays $1.6bn for Vivra of US

By Daniel Green and Greg McIvor in Stockholm

Swedish healthcare company Gambro is to pay $1.6bn for California's Vivra in a rare drugs industry move into the direct treatment of patients.

Vivra operates more than 262 kidney dialysis clinics in 28 states as well as selling management services to doctors and others co-ordinating kidney disease management.

Gambro makes components and pharmaceuticals for kidney dialysis machinery. It already owns a chain of dialysis clinics in the US, but the Vivra takeover more than doubles the number of people it is treating to 26,000, making it the second biggest dialysis provider in the US after Germany's Fresenius.

The deal also consolidates *the year-long drive by Incentive,* the industrial holding company controlled by Sweden's Wallenberg empire and which owns Gambro, away from cyclical businesses into healthcare and technology.

However, the route that it has chosen is unusual. Most mergers and acquisitions in healthcare are of competitors rather than customers, partly because of the suspicion that companies might dictate their customers' needs on commercial rather than medical grounds.

But Mr Mikael Lilius, *Incentive's chief executive, said* that the patients' well-being took precedence, and less than half Gambro's existing clinics used Gambro products.

He added that the decision to buy further into the service *sector rather than products* was based on market size: "[Dialysis] products are a $6bn a year market, and dialysis services is a $30bn a year market," he said.

Incentive will pay $35.63 in cash for each Vivra share, a 38 per cent premium over the average closing price for the past 20 business days.

By early afternoon, Vivra shares were trading up $6⅞ at $35⅛. Incentive shares were SKr2 lower at SKr515 ($66) before they were suspended ahead of the announcement.

The combined company *would have pro forma 1996* sales of $2bn and profits before tax, interest, depreciation and amortisation of $410m.

Incentive said the deal would dilute earnings until 1999 because of SKr9.5bn in goodwill charges.

Gambro is one of the world's largest kidney disease specialists along with Germany's Fresenius and Baxter of the US.

Last year Incentive paid SKr10.3bn for the 58 per cent of the company it did not already hold.

The company has become the cornerstone of Incentive's strategy and now accounts for *more than half its sales.*

It has been strongly acquisitive in recent years, particularly in the US.

Company results, Page 29

HPI shares fall after Marzotto merger collapses

By Paul Betts in Milan

The financial markets yesterday punished the Italian HPI holding group and Mediobanca, the Milan merchant bank, for the collapse of the L8,000bn ($4.6bn) merger between HPI and the Marzotto textiles and clothing company.

While HPI and Mediobanca shares plunged, Marzotto shares ended slightly higher.

Although financial analysts had originally welcomed the merger – which would have created one of Europe's biggest textiles and clothing groups – many supported Marzotto's decision to pull out in the face of growing differences of strategy and structure with HPI.

HPI ordinary shares lost 6.69 per cent to close at L866 in Milan, while Mediobanca shares fell 4.24 per cent to close at L10,175.

In contrast, Marzotto ordinary shares rose 0.36 per cent to end at L12,455. Financial analysts said this was partly because the family-controlled textile group had taken the initiative to call off the deal at the weekend.

However, Marzotto savings shares were off 3.5 per cent at L6,435.

In a damage limitation exercise, HPI said yesterday it would seek new industrial investment opportunities.

But the company, whose main shareholders form the cream of Italian private business – the so-called "salotto buono" or *financial* establishment – and include Fiat, Pirelli, Mediobanca and the Pesenti group, was clearly taken aback by Marzotto's sudden decision to pull out.

"Even last week they seemed to suspect nothing," said a businessman close to the deal.

After the failed attempt three years ago to merge Gemina with the former Ferruzzi-Montedison empire of the

Continued on Page 16

Insider dealing probe at German software giant

By Andrew Fisher in Frankfurt

German prosecutors have launched an insider trading investigation at SAP, the fast-growing business software company whose shares have risen sharply in recent years.

The state prosecutor's office in Frankfurt said the probe could yield the most "far-reaching case" of insider trading uncovered since profiting from privileged information was made a criminal offence in Germany three years ago.

SAP was founded 25 years ago and is one of the world's biggest software companies. It went public in 1988 with a market capitalisation of DM900m ($523m) At yesterday's share price, it is worth DM33bn.

The probe is directed at "persons unknown" rather than specific individuals, but extends to management board and supervisory board members and their families, totalling more than 100 individuals.

Mr Job Tilmann, spokesman for the state prosecutor's office, said although the volume of the suspected insider deals was not yet known, "it seems to be fairly extensive".

Several convictions have been handed down since insider trading was outlawed in 1994 but SAP is the most high-profile case to date. The maximum punishment is five years' imprisonment and heavy fines. So far, only fines have been levied, the largest being DM1m.

Mr Tilmann said the prosecutors were acting on information passed on by the federal supervisory office for securities trading – the stock exchange watchdog body. The office was alerted by evidence of share sales ahead of an announcement last October that SAP's profits for the first nine months of 1996 would be below expectations.

SAP's share price fell nearly 24 per cent to DM212 after the news that the company would probably not meet its forecast of 40 per cent earnings growth for the full year.

Since then, its share price has risen sharply as business recovered in the fourth quarter and SAP met its 1996 profits target.

Yesterday, SAP's share price fell 4 per cent, or DM13.95, in early *dealings* to DM314 *on*

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French left level with coalition, say polls

By David Buchan in Paris

A flurry of opinion polls yesterday confirmed the French left has drawn level with the centre-right coalition, in a challenge that looks likely to draw President Jacques Chirac into the campaign this week.

Of three polling institutes that released surveys yesterday, Sofres and Louis Harris put the RPR-UDF alliance and the combined Socialist and Communist forces at 38 each, while BVA credited the centre-right coalition with 40 per cent support, half a point ahead of the left.

Mr Francois Hollande, the Socialist spokesman, claimed "a real movement towards the left" but cautioned against "any hasty conclusion". He said that voting intentions recorded by the pollsters were "the only reliable indicator", describing as risky the projections of how many seats each side would win in the two ballot rounds on May 25 and June 1.

These projections all show the centre-right retaining a majority, albeit sharply reduced, in the National Assembly. In addition, the polls published yesterday did not canvass opinion in France's overseas constituencies, where the right traditionally holds a majority.

Meanwhile, President Chirac was said to be planning to use the second anniversary tomorrow of his Elysée victory to intervene in the campaign by writing an article to be carried in much of the French regional press.

The prime minister, Mr Alain Juppé, said on radio he had "always thought the election would be tight", but appears to be privately urging Mr Chirac to give active support to his Gaullist-led coalition.

Yesterday saw the start of official campaigning after more than 6,300 people filed their candidacies for the 577 National Assembly seats on Sunday night.

Mr Jean Tiberi, Gaullist mayor of Paris, who has been the target of corruption allegations, has drawn no fewer than 28 competitors.

Mr Franck Borotra, industry minister, forecast yesterday that even if the Socialists won, they would find themselves forced to continue with the partial privatisation of France Télécom, which has now been delayed until after the election.

Speaking to the Anglo-American Press Association in Paris, the minister said the privatisation was necessary to give France Télécom funds and partners, while the government also needed the receipts from its sale. He confirmed the centre-right's intention to put 300m-350m shares, or 30-35 per cent of the utility's capital, on the market.

But Mr Pierre Moscovici, Socialist spokesman on economic policy, told Reuters news agency that his party would halt the sale of both France Télécom and of the Thomson-CSF defence company. Final bids for Thomson-CSF are due in tomorrow night from the Alcatel and Lagardère groups, and the caretaker Juppé government had said it would make its choice next month.

Editorial Comment, Page 15

Juppé takes a wary line on state jobs

David Buchan analyses continuing arguments over the 'excess fat' in the French civil service

On a radio talk show yesterday, a furious doctor called in to lambast Mr Alain Juppé for having last year complained in parliament of "excess fat" in the French civil service.

The French prime minister explained that he "misspoke himself" in the National Assembly, and went on in more diplomatic terms to press the case for the French state to take a slimming cure.

Last year Mr Juppé immediately regretted that he had been goaded by the Socialist opposition into blurting out his words about excess fat, all the more so because a year earlier he had sacked his free-market minded finance minister, Mr Alain Madelin, for saying roughly the same thing.

In fact, the prime minister and a large portion of his centre-right coalition believe privately that with a total civil service of 5.5m – which includes central and local government, hospitals and the professional military but excludes most of those working in state enterprises – has far more than it needs to provide essential public services for its citizenry.

But it does not do in France to say so out loud. The only job reduction pledge that the centre-right thought wise to put in its manifesto was a promise to slim the government down to 15 ministers.

The Socialist manifesto attacks the government for "reducing public jobs". This was a reference to the government's action this year in cutting the central civil service by 5,600. If given another five year mandate, the centre-right has suggested it would continue job cuts at the same modest rhythm.

Mr Franck Borotra, the industry minister, said yesterday that his aim would be go on cutting about 100 jobs a year out of his 2,500-strong ministry, one of the smallest in Paris.

In theory, the pace could easily be accelerated. While sacking civil servants in mid-career would infringe their statutory job security, the fact that nearly 60,000 French civil servants reach retirement age each year provides an opportunity not to replace a far larger portion of them.

But this would only become politically acceptable if the man-in-the-street were to start to take exception to the extra benefits that civil servants enjoy.

Aside from a job security absent elsewhere in an economy with 12.8 per cent unemployment, French civil servants have outperformed the private sector on pay recently.

Having done relatively worse than the private sector in 1984-90, the public sector saw its purchasing power – the level of pay rises over inflation – rise by 7.2 per cent in 1990-95, compared with a gain of just over 1 per cent for private employees over the same period.

In an attempt to economise on the FFr560bn ($95bn) it spends on personnel each year, the government decreed a pay "freeze" last year.

This meant no general rate increase for civil servants, who nonetheless, because of various automatic pay rises awarded for seniority and age, had their total pay increased by over 2 per cent.

This spring the civil service unions demanded 4.4 per cent over 1997-98, but the government has stuck to its offer of 2.8 per cent.

Civil servants earn less than private employees at the top, though not at the bottom, of their respective pay scales.

But the public sector now has far better pension arrangements than the private sector which, due to a 1993 reform, is progressively having to pay in more and get less out of its pension schemes.

The reform, stretched over 1994-2008, will generally require people to contribute for 40 years before drawing a pension calculated at the average of their highest paid 25 years, instead of 10 years as before 1994.

By contrast, civil servants still have to pay in for only 37.5 years for a pension calculated on the last, and best paid, six months of their career. However, Mr Juppé burnt his fingers badly when he tried to change this in late 1995 and provoked strikes that paralysed the country, and may well be wary of trying again.

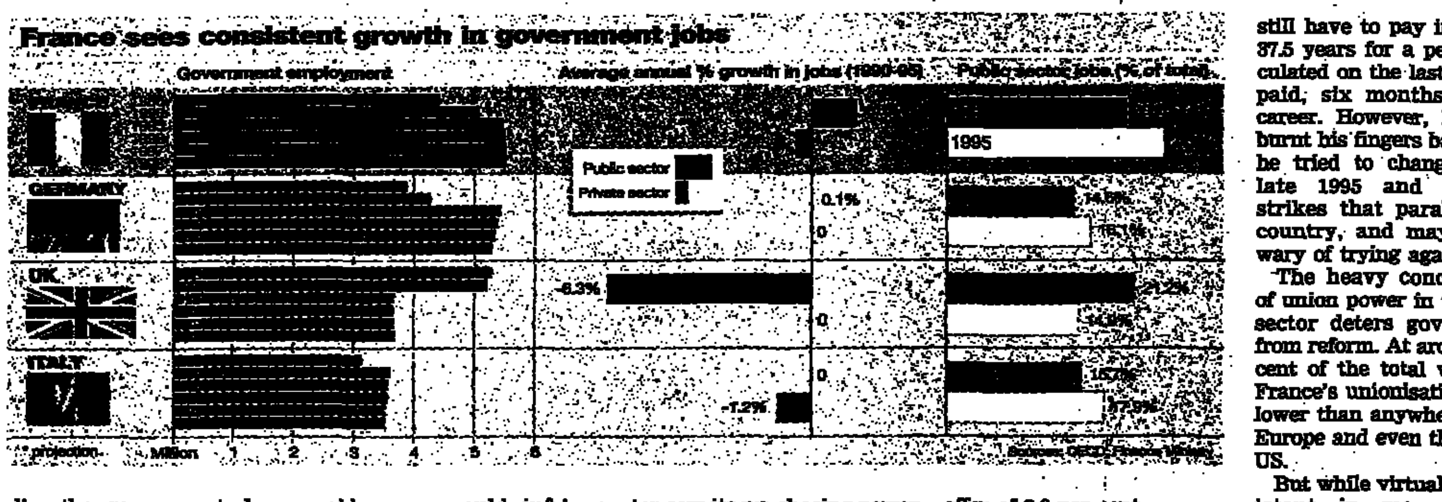
The heavy concentration of union power in the public sector deters governments from reform. At around 8 per cent of the total workforce, France's unionisation rate is lower than anywhere else in Europe and even than in the US.

But while virtually non-existent in many private French companies, it reaches 30-40 per cent in state enterprises, such as the SNCF railways.

The chief restraint on civil service reform, however, is that there is still little groundswell of support for it in the country.

Even at the height of the 1995 paralysis, opinion polls showed that most people thought the striking civil servants were justified in demanding to keep their special privileges.

Many French private employees seem to see civil servants as acting as their proxies, able to fight for rights that they themselves, scared by unemployment, can no longer demand.



EUROPEAN NEWS DIGEST

Exodus tests Albania mission

A renewed exodus of Albanians across the Adriatic to Italy has highlighted the weakness of the Italian-led international military mission operating in the troubled Balkan state since mid-April. Over the weekend an ageing cargo vessel overloaded with 1,223 Albanians was allowed to enter the port of Bari after refusing to turn back to Albanian waters. Hundreds more Albanians were reported to be hoping to board other vessels off the northern Albanian coast in trips organised by the local mafia.

One of the aims of the eight-nation military mission was to restore stability and so head off a repetition of the exodus in March prompted by a breakdown of law and order. The Albanian mafia is still operating in parts of the country with impunity, brazenly trafficking in illegal immigrants. *Robert Graham, Rome*

Italian confidence vote

Italy's centre-left government yesterday imposed a vote of confidence to avoid its L15,500bn ($9bn) mini-budget being bogged down under a mass of amendments tabled by the opposition. It was the 22nd occasion on which the government headed by premier Romano Prodi had resorted to this instrument during almost 12 months in office. The confidence vote has proved a more efficient means of pushing legislation through parliament than the traditional use of decrees which have immediate effect but require subsequent parliamentary approval.

The financial package was unveiled just before Easter to correct an overshoot in the 1997 budget deficit. Even so the additional measures are unlikely to bring the deficit down to 3 per cent of GDP as required by the Maastricht treaty. *Robert Graham, Rome*

Primakov in Nato talks

Mr Yevgeny Primakov, Russia's foreign minister, will today try to reach an agreement redefining Europe's security arrangements in a meeting in Luxembourg with Mr Javier Solana, Nato secretary general. Mr Primakov, who has strongly opposed Nato's plans to embrace new members in central Europe, said he wanted to resolve all outstanding issues between the two sides, which will enable President Boris Yeltsin to sign a security agreement with Nato leaders in Paris later this month.

"I want this meeting to be the last one and to enable us to sign a [Russia-Nato security] agreement on May 27," Mr Primakov said. Last week, Mrs Madeleine Albright, US secretary of state, said the two sides had narrowed their differences during talks in Moscow, but "we still have some way to go". *John Thornhill, Moscow*

UBS man flees to US

The Swiss security guard who lost his job after discovering the Union Bank of Switzerland had broken a government ban on shredding historical documents has fled to the US. Mr Christoph Meili, 29, said he and his family had received death threats.

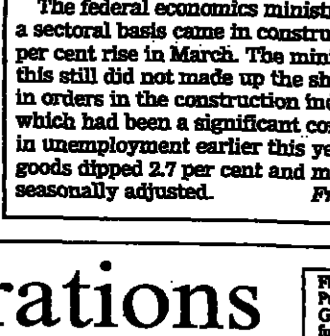
Publicity surrounding the UBS document shredding incident in January caused both UBS and Switzerland severe embarrassment when the country was trying to reassure the world Jewish community it was committed to a thorough historical investigation of its war-time relations with Nazi Germany. *William Hall, Zurich*

Libyan held in Malta

A Libyan refugee was arrested by Maltese police over the weekend after an extradition demand by Libya where, the Libyans claim, he is wanted to serve a sentence for drug trafficking offences. Mr Najib Harari was detained at Malta's international airport hours before boarding a flight to an undisclosed country on a visa provided by the United Nations High Commissioner for Refugees. The Libyans claim Mr Harari formed part of a drug trafficking group. *Godfrey Grima, Valletta*

ECONOMIC WATCH

Germany's output rises 0.5%



German industrial production rose by a seasonally adjusted 0.5 per cent in March, down from the 2 per cent adjusted rise recorded in February, according to official figures published yesterday. Seen in the preferred two-month period industrial production in February and March rose 1.5 per cent over that in December and January. The figures showed near-flat performance in west Germany against more robust activity in the east of the country. Production in the west rose by a seasonally adjusted 0.1 per cent in March compared with a 6.8 per cent rise in the east. Year-on-year, pan-German output rose 4.7 per cent, according to calculations based on the official data.

The federal economics ministry said the biggest rise on a sectoral basis came in construction, which recorded a 5 per cent rise in March. The ministry noted, however, that this still did not made up the shortfall caused by a plunge in orders in the construction industry over the winter which had been a significant contributor to a marked rise in unemployment earlier this year. Output of investment goods dipped 2.7 per cent and mining 2.5 per cent, seasonally adjusted. *Frederick Stüdemann, Berlin*

Airlines launch case against aid for Air France

By Michael Skapinker, Aerospace Correspondent

Six European airlines, headed by British Airways, today launch their court challenge to Air France's right to receive FFr20bn ($3.43bn) of state aid.

The legal action will be heard by the European Court of First Instance in Luxembourg. The subsidy to the loss-making French carrier was approved by the European Commission in 1994.

The airlines supporting BA's legal challenge are TAT, its French subsidiary, Scandinavian Airlines System, KLM of the Netherlands, Air UK and Euralair of France. The airlines' case is being supported by the governments of the UK, Denmark, Sweden and Norway.

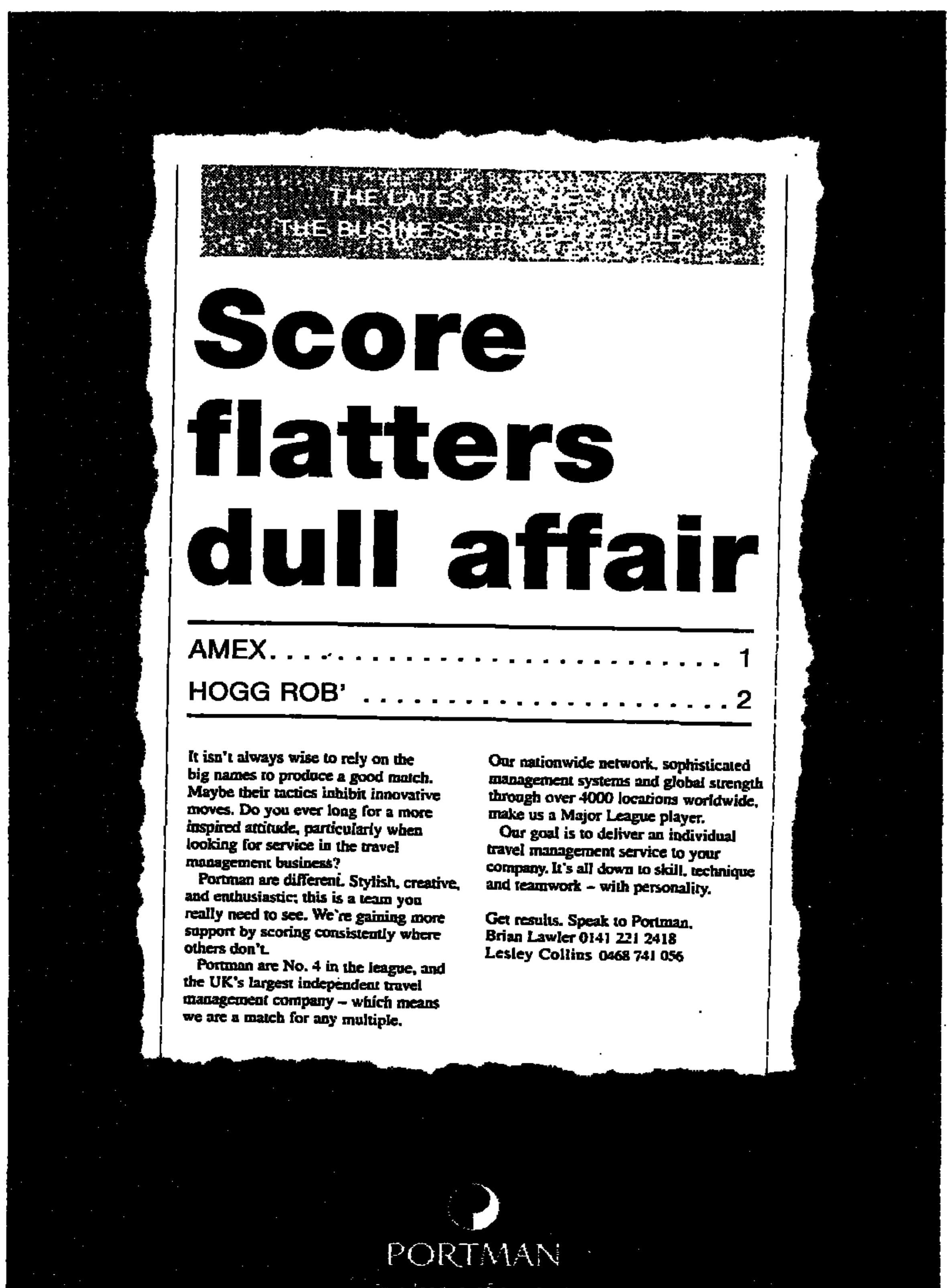
The Commission last month gave Air France permission to receive the final FFr1bn of the state aid package. The Commission last year approved the third and last tranche of aid to the airline of FFr5bn, but froze the FFr1bn pending a review of Air France's progress towards restructuring.

Permitting the final FFr1bn to be paid, the Commission said that Air France's restructuring programme appeared to be on track. Mr Christian Blanc, Air France chairman, has said he expects the airline to show a net profit in the year to March 1998.

Another airline legal battle will resume tomorrow when BA asks the French courts to support its complaints over security conditions for flights operated by Air Algérie from Charles de Gaulle airport in Paris.

The Algerian carrier recently restarted flights from the airport after a two-year ban. BA has objected because Air Algérie's check-in counter at Charles de Gaulle is next to its own. The UK carrier says security for Air Algérie is insufficient to ensure the security of other airlines' passengers.

French authorities have rejected BA's request to be allowed to switch flights from Charles de Gaulle to Orly, Paris's other airport.



Swedish corporations may take HQs abroad

By Greg McIvor in Stockholm

Several big Swedish groups are considering moving their headquarters abroad in response to high taxes and what they call poor business conditions.

The companies, which include Ericsson, the telecommunications group, and Aga, the industrial gas supplier, said heavy tax burdens and social insurance levies were forcing them to consider relocating abroad.

Mr Lars Ramqvist, Ericsson chief executive, said a rising proportion of the company's highly trained staff was seeking to leave Sweden for tax reasons.

"If our people in research and development would rather relocate to the US or the UK what will we do then?" he said, adding that it was virtually impossible to attract foreign staff to Sweden.

Ericsson has half of its workers in Sweden but only around 6 per cent of its sales there.

Mr Ramqvist said Ericsson's board had commissioned a study of the pros and cons of a possible move from Ericsson's Stockholm headquarters. Aga, which has up to 90 per cent of its sales outside Sweden, has done likewise.

The growing disenchantment in Swedish industry over the policies of the ruling Social Democrats follows a decision earlier this year to start shutting down the country's nuclear power industry, a move viewed by many executives as anti-business.

Swedish corporation tax, at 28 per cent, is not high by European standards. But the top income tax rate is 59 per cent and the total tax burden is one of the highest in the OECD, in part due to social insurance taxes which require employers to pay 31 per cent of an employee's salary to the authorities.

Sweden is one of few EU countries without special tax rules for foreigners. However, Mr Thomas Ostros, taxation minister, said the government was considering adopting tax breaks for foreign executives on limited-duration postings in Sweden.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigila, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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NEWS: EUROPE

Emu could hit market jobs and profits

Bankers and traders are beginning to worry. **Richard Lapper** reports

Preparing for Emu

Highlighted on the front page of a new report on the euro are the words "422 London business days remaining", neatly summing up the greater urgency with which the prospect of European monetary union is being seen by investment bankers.

The report, published on Friday by the London Investment Banking Association (Liba), surveys in detail the potential impact of Emu on the capital markets in which investment banks operate. But as those business days pass, another issue – the effect of Emu on the business of investment banks and the well-being of the people who work in them – will start to loom larger.

Already some bankers and traders are beginning to worry that the rationalisation of European bond and currency markets will sweep many of their jobs away. Trading and sales of German, Italian and other European currencies and bonds is – alongside mergers, acquisitions and dealings in equities, as well as in other currencies and fixed income markets – a significant line of business for investment banks and securities brokers, especially for some smaller firms. Last year, for example, trading in Italian bonds and swaps was particularly profitable, following the sharp fall in Italian interest rates. Yet these kinds of trading opportunities will diminish after adoption of a single currency.

Fear of job losses is being voiced in the City of London, where much of this business is concentrated. "At the back of every trader's mind is a secret hope that Emu is going to fail," said one US bank economist. "In the next few years Europe's financial markets will come to resemble the coal and steel industries in the 1970s and 1980s. Your average Mark-Paris trader [industry jargon for a currency dealer specialising in the D-Mark and the French franc] is going to become an endangered species," he added.

But the impact could be even greater in smaller regional centres. Mr Arun Aggarwal, a partner with Price Waterhouse, the accountants and consultancy group, predicts some smaller European banks could lose as much as 50 per cent of their foreign exchange business and up to 60 per cent of revenues from bond arbitrage trading (where traders spot deviations from expected patterns of pricing) as a result of the single currency. "The euro is all about eliminating financial inefficiencies in the market," he said.

> 'At the back of every trader's mind is a secret hope that European monetary union is going to fail'

Mr Terry Eccles, a managing director with J.P. Morgan, the US bank, says some firms in areas such as Scandinavia or southern Europe, which obtain much of their income by dealing in local currencies or bonds on behalf of domestic fund managers, are particularly vulnerable to competition from bigger international rivals as national currencies disappear.

"The firms which have a strong position in their own market but nowhere else will find it difficult," said Mr Eccles, who specialises in mergers and acquisitions transactions in the financial sector. "At present you can make a good living if you are number one or number two in a local market. That is going to come to an end," added Mr Peter Milne, banking analyst at IBCA, the credit rating agency.

At the same time, however, many firms – especially those whose business is already widely diversified – will compensate for the contraction of "intra-European" business by expanding elsewhere.

A survey of 900 banks and brokers published earlier this year by the International Securities Market Association (Isma), a trade body, says that while some firms contemplate job losses of between 15 and 25 per cent, others, particularly investment banks, felt they would not have to make any members of their staff redundant.

One typical firm with 350 staff said it expected to lose up to a quarter of its bond brokers but that its emerging market team would rise from 25 to 125 people.

Emu is itself likely to add to these opportunities. Moves to meet the Maastricht criteria for Emu are leading governments to cut their fiscal deficits and indebtedness, pushing more capital resources towards institutional investors in the private sector. The cut in inflation, a necessary precondition for Emu, is leading more European companies to consider raising capital on the debt markets, bringing Europe closer into line with the US, where companies are more likely to raise money on the bond markets. And privatisation is raising the supply of equity capital. The result is that capital markets are likely to become deeper and more liquid – with a greater potential number of buyers and sellers for each transaction.

Greater liquidity in the market is likely to reduce the size of margins on deals, favouring bigger players that can compensate with greater volume. Bigger banks could benefit in other ways too. Investment banks which have already developed expertise in areas such as credit analysis in the US, will be well placed to take advantage as the corporate bond market develops in Europe. And bigger banks will benefit as European fund managers take a more continental view of their investment portfolios.

Many international fund managers have already begun to judge the performance of companies in which they invest against their counterparts in the same sector in other countries. The development of a European equity market in which all listed companies will quote the prices of their shares in the same currency will lead more fund managers to follow suit, making them more likely to deal with bigger international banks which have a strong presence in each market.

The result will be greater consolidation, reinforcing a trend which has already seen many of the UK's merchant banks lose their independence. Mr Aggarwal predicts further polarisation. "A shakeout of inefficient players is unavoidable," he said.


Phoning around for vacancies? Dealers are likely to bear the brunt of job losses if Emu goes ahead

Lawyers set to gain from complex battles over bonds

By Wolfgang Münchau, Economics Correspondent

European economic and monetary union could give rise to debilitating legal battles between bond issuers, bond holders and governments, according to experts, unless there is further legislation governing the transition to the planned single currency, the euro.

Lawyers and financial market practitioners in the City of London are expressing concern about a whole raft of unresolved issues in connection with the redenomination of securities – the change in their nominal value to the euro.

This uncertainty arises because securities can be denominated in either euros or in national currencies during the transitional period between 1999 and 2002.

Pressure is growing on the European Union and national governments to establish clear legal guidelines, or else risk a flood of litigation.

Government bonds of countries participating in Emu will immediately be redenominated to euros. This will be done to help the euro-debt markets get off the ground quickly.

This changeover will be governed by statute in most cases, but this will not apply to private sector debt, nor will it apply to countries that do not participate in Emu.

The biggest legal difference is between the UK – still seen as unlikely to be in the first wave of Emu – and Germany.

> Pressure is growing for clear guidelines to try to avoid a flood of litigation about securities

In Germany, bond contracts are subject to statutory provisions. In the UK the legal terms are negotiable.

In the UK, therefore, a majority of bondholders can force through a redenomination. In Germany, such a decision would require unanimity, which is virtually impossible.

Mr Cliff Dammers, director general of the International Primary Market Association, said one of the classic cases would be a UK government D-Mark [bond] issue that provided for meetings at which redenomination could be agreed by bondholders. German investors in such an issue would be protected by German law from redenomination. "That is a classic case where you could have legal conflict," he said.

Lawyers warn that there may be other unresolved areas where difficulties might arise, especially if bondholders vote not only to redenominate the bonds but also to renominalise – first convert and then round to the nearest large number.

For example, simple redenomination of a DM100 bond could result in a E53.23 bond, but bondholders could decide that this is an awkward number and vote instead to convert to E50. Investors would get paid cash to cover the difference.

But this could also give rise to a host of legal issues. One lawyer expects a floodgate of litigation to open up in a case such as this because renominalisation would change the mathematical relationship between securities and derivatives.

There may also be tax issues, if national tax authorities decide that the cash payment is liable to tax. Disgruntled investors could argue that renominalisation puts them at a disadvantage.

The practitioners' view is therefore simple: leave bonds alone, at least during the transitional period. But all the problems will resurface once the transitional period ends in 2002, when national notes and coins cease to be legal tender.

In a detailed report*, the London Investment Banking Association (Liba) made a series of recommendations, starting with one not to redenominate existing debt securities, if at all possible, or otherwise to give sufficient thought to the legal implications.

Liba warns in particular about legal uncertainty in respect of securities issued before the Maastricht treaty on economic and monetary union in 1991.

But Liba also suggests that among market intermediaries transactions such as coupon payments should be settled in euros, rather than national denominations.

It also suggests that if bond issuers and bond holders decide to redenominate, they should opt for a minimum denomination of E1,000 to ensure maximum liquidity.

With several of these legal issues likely to remain unresolved, financial lawyers will almost inevitably count among the winners of Emu.

**Liba progress report on transition to the euro capital markets. Published by London Investment Banking Association, 6 Frederick's Place, London EC2R 8BT. Tel 0171 796 3606. Fax 0171 796 4345*

NEWS: ASIA-PACIFIC

Koreas fail to agree on food aid

By John Burton in Seoul

Red Cross talks between North and South Korea on providing humanitarian food aid to the starving North yesterday failed to reach agreement because of a dispute on the size and timing of grain shipments.

The Beijing talks that began on Saturday were the first between the two Korean Red Cross organisations in nearly five years. North Korea is in danger of exhausting its grain stocks by June after two years of damaging floods.

Talks are expected to resume shortly through a special telephone hotline straddling the closed border between the two Koreas. "It's not broken, it's not suspended, it will be continued," said Mr Paek Yang-ho, chief North Korean delegate, about the session of talks.

The North agreed in principle to accept some of the South's conditions for food delivery, but refused to sign a formal agreement until the South made explicit promises on the size and schedule of the grain shipments, according to Yonhap, the South Korean news agency.

The South said it could not give an exact figure on the amount of promised food aid because it was dependent on private contributions for buying the supplies, which makes any estimate uncertain. It promised to ship the food as quickly as possible, but could offer no guarantees on delivery schedules.

The impasse came after the North indicated it would compromise on delivery arrangements, giving Seoul greater access to its secretive neighbour.

This would include transporting food through the truce village of Panmunjom, while adding sea routes to the existing shipping line between the southern port of Inchon and the North's Nampo port to speed deliveries.

Until the issue is resolved, Seoul will block all food aid to the North.

Patten fears over HK democracy

By Peter Montagnon and John Ridding in Hong Kong

Hong Kong's new administration is likely to scrap the democracy arrangements put in place by the outgoing colonial government when it proposes its own new electoral system within the next few weeks, Mr Chris Patten, the governor, said yesterday.

The arrangements, to be decided by a China-appointed committee, "will be by and large the ones that we declined to put in place in 1993", he said in an interview. These would have allowed an elected Legislative Council to remain in office through the handover period, "but they were not frankly the sort of vehicle with which I would have wanted the British government or the Hong Kong government or myself to be associated."

The row over China's plan to abolish the existing Legislative Council has soured relations between the UK and China in the closing months of British rule.

Mr Tung Chee-hwa, who will take over as Hong Kong's chief executive in July, dismissed concerns about a reversal of democracy. "We are moving forward in our own way, with our own speed, and I think society at large feels quite comfortable," he said. "It is a progressive development of the democratic system."

But Mr Patten said there would have been problems if the UK had accepted China's democracy plan after the suppression of protests in Tiananmen Square in 1989. "We would have taken the flak for three or four years, and I don't think that it would have been conducive to political or social stability. And secondly we would have actually given our stamp on things which many people would have argued were... quite plainly wrong."

China's arrangements would focus on proportional representation in multi-member constituencies which were designed to curb the influence of pro-democracy parties. They would also restrict the franchise for separate "functional constituencies" representing professions and business.

There would be a case for proportional voting in a completely elected legislature, but this was not the case under Hong Kong's system, where functional and appointed members played an important role. China might choose to have 10 two-member geographic constituencies, or even five four-member constituencies, which would be "more outrageous".

The row over the legislature has prevented the passage of new laws covering right of abode, which would clarify the status of Hong Kong residents before the handover. But Mr Patten said this was not "a real, substantial, problem".

Britain had now announced all the main technical points on which it had reached agreement with China. This had assuaged individual anxieties, and the Hong Kong government's hotline on residency was receiving few calls.

There was thus no need for legislation before the handover at midnight on June 30, Mr Patten said, but Britain's offer to publish a bill on right of abode still stood. Talks on residency broke down last month after China rejected the offer which would have allowed the Hong Kong civil service to draft a bill for passage by China's provisional Legislative Council after the handover.

Despite rows over democracy and civil liberties Mr Patten said Britain was leaving Hong Kong in confident shape with a strong civil service and economic policies.

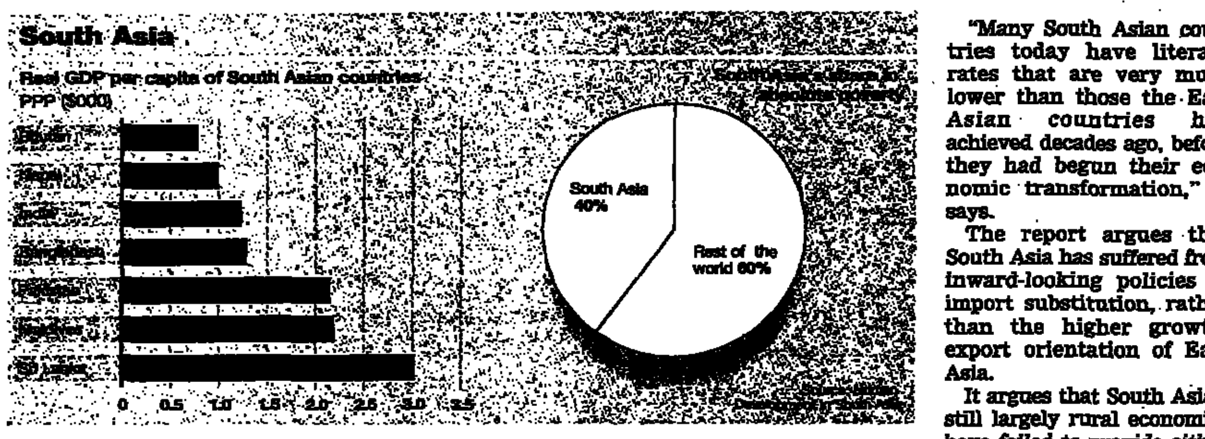
Observer, Page 15

'Cut defence to lift S Asia's plight'

$129bn welfare drive urged to narrow gap with Africa and 'tiger' economies

South Asia should curb military spending to help finance a $129bn programme over the next 15 years to improve basic education, healthcare and nutrition, says Mr Mahbub ul-Haq, the originator of the United Nations human development index.

Curbing defence spending could release a "peace dividend" of $80bn-$125bn by 2010, argues Mr ul-Haq, an economist and former Pakistani finance minister, in a 153-page report*.



South Asia's 1.2bn people have fallen behind sub-Saharan Africa to become the poorest, least literate and worst nourished region in the world, he says.

The seven South Asian countries – India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and the Maldives – also trail well behind the East Asian "tigers", after having been on about the same level of economic development in the 1960s, his report points out.

The report – issued by the Islamabad-based Human Development Centre that he now heads – urges regional leaders to act on social problems at a summit meeting in the Maldives next week.

As well as starting to curb military spending, the region's governments should shift priorities towards basic education and welfare and should encourage "bold" Latin American-style debt-equity swaps to lessen the burden of external debt, it says.

Righting the region's developmental wrongs would, suggests the report, require total spending of $129bn over the next 15 years. This would provide primary schooling for 126m children, basic healthcare for 690m people, safe drinking water for 770m people and adequate nutrition for 87m children.

Assuming an average 5 per cent growth in gross domestic product, these provisions would amount to 1.6 per cent of the nations' total GDP.

The report says that South Asians have fallen behind sub-Saharan Africa in almost all indicators of human development. The region's average per capita income at $309 lags sub-Saharan Africa's $550, it says.

South Asia's literacy rate of 48 per cent trails Africa's 55 per cent – and the average 77 per cent elsewhere in the developing world – while two thirds of South Asia's children are underweight, compared with a third of those born south of the Sahara.

Since the 1960s, per capita income has risen four times as fast in the East Asian "tiger" countries than in South Asia, the report says. The average gap between South and East Asian per capita incomes rose to nearly $10,000 in 1993 against just $200 in 1960, it says.

The report blames South Asia's plight on dismal provision of basic education, insular trade and economic policies, poor governance and institutional inertia.

It identifies basic education as a critical difference between South Asia and the East Asian "tiger" economies. In East Asia governments have on average spent up to three times more proportionately on basic schooling than in South Asia, where education spending is heavily skewed towards subsidised tertiary education, and thus to the nations' elites, the report says.

"Many South Asian countries today have literacy rates that are very much lower than those the East Asian countries had achieved decades ago, before they had begun their economic transformation," it says.

The report argues that South Asia has suffered from inward-looking policies of import substitution, rather than the higher growth, export orientation of East Asia.

It argues that South Asia's still largely rural economies have failed to provide either the land reforms or grass-roots credit policies which it says contributed to East Asia's economic "miracle". It also blames poor governance, persistent high defence spending and bureaucratic inertia for South Asia's plight.

Mr ul-Haq, who conceived and launched the UN's Human Development Reports in 1990, said his report was not a "document of despair". He hoped his findings would jolt political leaders into addressing critical social and economic problems.

Human Development in South Asia, Oxford University Press.

Mark Nicholson

ASIA-PACIFIC NEWS DIGEST

Seoul speeds up market reform

South Korea intends to bring forward by one year the opening of its stock and bond markets in an effort to offset its record current account deficit. The finance ministry plans to raise the foreign shareholding ceiling in listed companies to 25 or 26 per cent in the second half of 1997, following a 3 percentage point increase to 23 per cent last Friday.

Under a financial liberalisation plan submitted to the Organisation for Economic Co-operation and Development last year, South Korea promised to increase the foreign limit by 3 percentage points annually between 1997 and 1999 to 29 per cent before opening the market fully to foreign investors in 2000.

Analysts believe the accelerated schedule could result in a 30 per cent shareholding ceiling in 1998 and 35 per cent in 1999.

Foreigners will be allowed to invest in listed non-guaranteed convertible bonds of large corporations and long-term non-guaranteed bonds of small and medium-sized companies this year. However, foreign investors are expected to respond cautiously because of South Korea's economic problems. *John Burton, Seoul*

Japan birth decline continues

Japan received a sobering reminder of its rapidly ageing population yesterday when the government published figures showing that the number of children under 14 had declined for the 16th consecutive year to 19.52m, the lowest level since the first national census in 1920.

Children aged 14 and younger now account for 15.5 per cent of Japan's population, compared with the 1955 figure of 35 per cent, according to the government's management and co-ordination agency. Only Italy, with 15.1 per cent, has a lower percentage. Japan's birthrate remains on a downward trend, reinforcing projections that by 2010 it will have the largest proportion of elderly people and the smallest workforce among developed countries. *Gwen Robinson, Tokyo*

BHP faces steel strike

The steel division of BHP, Australia's largest company, faces a 24-hour national strike on May 15, as workers protest against the company's decision to close steelmaking activities in Newcastle, north of Sydney, with the loss of 2,500 jobs.

The Australian Council of Trade Unions said the action would involve about 25,000 employees. It would not affect BHP's mining and energy divisions, but the ACTU did not rule out further action. Workers at Newcastle held a 24-hour strike last Friday to protest at the company's decision. *Nikki Tait, Sydney*

Bangkok braced for protest

Nearly 15,000 poor Thai villagers ended their three-month encampment outside Government House in Bangkok at the weekend, but the government of Prime Minister Gen Chavalit Yongchaiyudh is bracing for another wave of demonstrations this week – against the partial privatisation of the Electricity Generating Authority of Thailand (Egat).

The villagers, members of the Assembly of the Poor, took down their makeshift shelters after reaching an agreement with Gen Chavalit over 127 issues relating primarily to land conflicts and compensation for villages moved or destroyed as a result of government infrastructure projects. The protest had been an embarrassment for Gen Chavalit, who promised to alleviate the plight of the poor. *Ted Bardacke, Bangkok*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Prices for 06.05.1997: Pool purchase price £/MWh	Final Prices for Trading 08.04.1997: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	11.6	6.5	6.82	8.39	3.12
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.4	1.9	3.75	7.00	2.95
1993	11.6	1.1	3.22	5.86	2.78
1994	6.2	1.4	4.67	7.08	2.86
1995	–0.2	2.1	5.93	6.57	2.61
1996	–3.2	4.9	5.41	6.43	2.15
2nd qtr.1996	–2.4	5.4	5.42	6.70	2.18
3rd qtr.1996	–3.8	4.4	5.49	6.77	2.20
4th qtr.1996	–4.6	4.6	5.45	6.35	2.02
1st qtr.1997	–3.9	4.8	5.47	6.56	1.87
April 1996	–2.3	5.8	5.38	6.50	2.20
May	–2.4	5.4	5.39	6.72	2.18
June	–2.4	5.0	5.48	6.90	2.17
July	–3.2	4.7	5.53	6.85	2.25
August	–3.9	4.4	5.42	6.62	2.19
September	–4.2	4.3	5.52	6.82	2.16
October	–4.9	4.4	5.43	6.54	2.08
November	–4.7	4.7	5.41	6.19	2.00
December	–4.3	4.9	5.51	6.29	1.99
January 1997	–3.8	4.9	5.47	6.56	1.90
February	–3.5	4.9	5.40	6.42	1.84
March	–4.5	4.5	5.55	6.70	1.87

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	10.5	11.5	4.15	4.64	0.55
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	–0.4	4.28	5.24	1.00
1993	3.0	1.4	2.83	4.18	0.87
1994	5.4	2.9	2.12	4.20	0.78
1995	8.2	3.2	1.12	3.39	0.86
1996	13.7	3.1	0.48	3.03	0.75
2nd qtr.1996	15.7	3.8	0.49	3.24	0.72
3rd qtr.1996	13.4	3.5	0.51	3.11	0.75
4th qtr.1996	10.6	3.1	0.42	2.62	0.77
1st qtr.1997	9.8	2.7	0.44	2.43	0.88
April 1996	15.3	3.0	0.49	3.23	0.71
May	15.5	3.3	0.52	3.28	0.72
June	16.3	3.8	0.46	3.19	0.71
July	14.3	3.7	0.55	3.27	0.74
August	13.8	3.7	0.53	3.14	0.76
September	12.2	3.5	0.43	2.91	0.76
October	11.0	3.7	0.43	2.75	0.76
November	10.8	3.3	0.42	2.62	0.77
December	10.0	3.1	0.42	2.48	0.80
January 1997	10.0	3.2	0.43	2.49	0.86
February	9.8	3.0	0.44	2.44	0.86
March	9.6	2.7	0.47	2.36	0.89

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	9.0	7.3	4.03	6.14	2.21
1988	9.8	6.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.1	8.2	9.52	7.80	2.45
1993	9.4	7.9	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	0.2	4.53	6.82	2.00
1996	10.5	7.6	3.31	6.21	1.81
2nd qtr.1996	10.5	7.8	3.33	6.47	1.87
3rd qtr.1996	10.8	8.3	3.27	6.34	1.81
4th qtr.1996	11.1	8.1	3.18	5.89	1.66
1st qtr.1997	10.3	7.7	3.19	5.72	1.52
April 1996	10.6	7.6	3.33	6.39	1.88
May	10.4	8.1	3.29	6.45	1.87
June	10.4	7.8	3.38	6.57	1.84
July	11.3	8.7	3.38	6.48	1.85
August	10.9	8.5	3.29	6.30	1.81
September	10.3	7.9	3.12	6.23	1.78
October	11.9	8.2	3.12	6.00	1.73
November	10.0	8.2	3.19	5.86	1.69
December	11.3	7.8	3.23	5.79	1.61
January 1997	11.1	8.7	3.14	5.79	1.55
February	10.1	7.4	3.19	5.58	1.50
March	9.8	7.0	3.26	5.76	1.49

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	4.1	11.5	8.63	9.46	2.75
1988	3.9	8.3	7.94	9.08	3.69
1989	7.5	10.0	9.40	8.79	2.88
1990	3.6	9.3	10.32	9.92	3.19
1991	–4.9	2.4	9.62	9.03	3.58
1992	–0.2	5.4	10.36	8.57	3.55
1993	1.6	–2.2	8.55	6.75	3.21
1994	2.9	0.7	5.84	7.21	2.99
1995	7.0	4.3	6.60	7.53	3.17
1996	0.6	–3.2	3.94	6.32	3.05
2nd qtr.1996	7.1	0.7	3.96	6.51	3.02
3rd qtr.1996	5.0	–1.0	3.86	6.35	3.16
4th qtr.1996	0.6	–3.2	3.48	5.85	2.92
1st qtr.1997			3.35	5.57	2.63
April 1996	4.5	1.9	4.00	6.51	3.02
May	6.2	1.9	3.90	6.46	3.01
June	7.1	0.7	3.98	6.56	3.02
July	4.4	–0.1	3.84	6.46	3.15
August	6.8	–0.4	3.98	6.35	3.20
September	5.0	–1.0	3.75	6.24	3.13
October	5.1	–0.6	3.51	5.97	3.00
November	7.2	–0.7	3.47	5.84	2.90
December	0.6	–3.2	3.44	5.76	2.85
January 1997	0.8	–3.1	3.35	5.69	2.71
February	1.6	–3.1	3.33	5.39	2.52
March			3.37	5.59	2.63

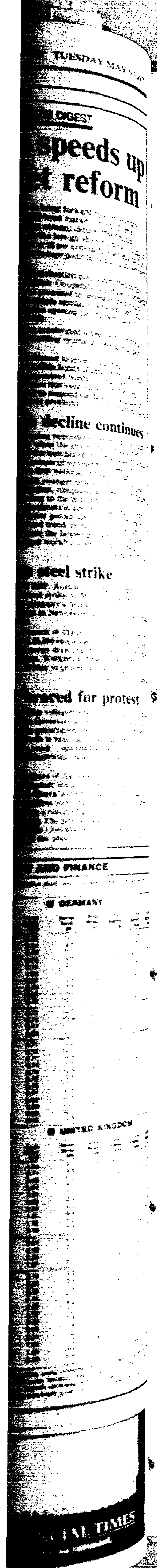
ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	10.4	9.6	11.32	10.58	1.94
1988	7.8	8.7	11.24	10.54	2.71
1989	7.2	9.2	12.42	11.61	2.46
1990	9.3	10.1	11.96	11.87	2.84
1991	7.3	8.5	11.83	13.20	3.45
1992	6.9	7.7	13.86	13.29	3.63
1993	4.7	7.4	10.22	11.23	2.35
1994	6.6	5.1	8.48	10.56	1.67
1995	0.2	0.4	10.38	12.22	1.72
1996	0.8	3.3	8.75	9.43	2.19
2nd qtr.1996	–0.7	3.6	9.01	9.89	2.24
3rd qtr.1996	1.4	4.1	8.59	9.38	2.49
4th qtr.1996	3.5	2.8	7.52	7.89	2.28
1st qtr.1997			7.29	7.44	1.97
April 1996	–1.8	2.6	9.52	10.35	2.14
May	–0.5	3.8	8.84	9.72	2.25
June	0.2	4.4	8.65	9.59	2.33
July	0.6	4.3	8.66	9.45	2.46
August	1.8	4.4	8.70	9.50	2.46
September	1.8	3.7	8.39	9.19	2.53
October	3.0	3.5	7.98	8.34	2.33
November	3.9	2.7	7.39	7.72	2.28
December	3.6	2.3	7.18	7.58	2.24
January 1997	7.1		7.20	7.43	1.98
February	8.2		7.29	7.15	1.86
March			7.39	7.71	2.05

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1987	4.7	15.2	9.77	9.69	3.60
1988	6.8	17.3	10.41	9.62	4.48
1989	5.9	17.6	13.96	10.11	4.36
1990	5.3	16.1	14.82	11.56	5.07
1991	2.4	7.9	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.9	3.5	5.99	7.40	4.01
1994	6.4	5.0	5.57	8.01	3.94
1995	5.9	7.3	6.77	8.16	4.15
1996	6.7	10.0	6.11	7.79	4.08
2nd qtr.1996	6.5	9.9	6.06	8.06	4.06
3rd qtr.1996	7.2	9.5	5.83	7.85	4.13
4th qtr.1996	7.3	10.3	6.28	7.54	3.96
1st qtr.1997	6.7	10.8	6.34	7.39	3.79
April 1996	5.8	10.0	6.09	8.05	4.02
May	6.4	9.9	6.12	8.09	4.08
June	7.4	9.9	5.94	8.05	4.15
July	7.1	9.1	5.80	7.91	4.21
August	7.4	9.5	5.84	7.82	4.12
September	7.0	10.0	5.87	7.81	4.08
October	7.4	10.6	6.02	7.51	3.98
November	7.4	10.8	6.40	7.56	4.01
December	7.0	9.5	6.42	7.55	3.95
January 1997	7.2	9.9	6.41	7.53	3.89
February	6.4	11.2	6.29	7.17	3.73
March	6.5	11.2	6.32	7.44	3.80

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds: interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.



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NEWS: WORLD TRADE

GM and Daewoo plan Ukraine link

By Matthew Kaminski in Kiev and Haig Simonian in Seoul

Daewoo of South Korea and *General Motors of the US*, two of the world's most bitter carmaking rivals, are considering burying the hatchet and building vehicles jointly in the Ukraine.

The two rivals are in talks to share control of AvtoZaz, the country's biggest carmaker. The deal would involve either GM or Daewoo forming a joint venture with AvtoZaz and bringing in the losing bidder as a junior partner.

The arrangement, hinted at by Daewoo's chairman, Mr Kim Woo-choong, at last month's Seoul motor show, comes as a considerable surprise, as the Ukrainian government had been considering separate proposals from the two foreign companies to buy into AvtoZaz. A decision could be announced shortly.

"Our main discussion partner is the Ukrainian government and then Daewoo," said a spokesman for Opel, GM's German subsidiary, which has been spearheading its international expansion.

The possibility of a joint approach is highly unusual considering the difficult recent relations between Daewoo and GM. Daewoo entered the motor industry via a technology transfer *agreement* with GM in the early 1990s. However, that deal was disbanded amid some acrimony in 1992.

Although the two companies still work together in Korea making car parts, their relations soured further after clashing in separate attempts to gain control of FSO, the big Polish state-owned car company, with Daewoo the eventual victor.

GM had proposed to build 25,000 Opel Vectras a year in the Ukraine, while also boosting production of the AvtoZaz's established Tavria model. Its proposal had been backed by active lobbying by the US government.

Daewoo also promised to keep the Tavria in production and introduce three of its own models within 18 months. Its plan called for a $300m investment in AvtoZaz.

Earlier this year, the Korean company, which has invested heavily in former communist carmakers, pledged its readiness to invest $1bn on a 51 per cent stake in the joint venture at AvtoZaz and to expand capacity to 300,000 units.

AvtoZaz is one of the more attractive car companies in the former Soviet Union. Its plant is relatively modern and the Tavria is a familiar brand.

Moreover, the Ukranian market, with 52m people, is seen to have considerable long-term potential, including the prospect of wider exports within the former Soviet Union.

But AvtoZaz has been held back by chronically poor investment. The company, which has the capacity to build 100,000 cars a year, made just 7,000 last year.

Daewoo officials in Ukraine have expressed confidence that the Kiev government has sided with their proposal for the financially troubled carmaker.

Daewoo's position has been bolstered by its existing local presence in other sectors, including consumer electronics, property and telecommunications. Daewoo is already the largest foreign investor in Romania and Uzbekistan.

Daewoo's readiness to invest, in spite of the difficult local business conditions, have helped it to forge close contacts with senior government officials. GM has kept a lower local profile.

Car industry gears up for fresh assault on world markets

Japan set for export drive

By John Griffiths

The Japanese car industry has slashed its costs, is recovering rapidly and – helped by the weaker yen – is once again poised to make fresh inroads into the world's car markets, according to a new study by the Economist Intelligence Unit.

Japanese carmakers' share of the west European market, stagnant at around 11 per cent for several years, is forecast to climb by 3 percentage points to 14 per cent by the end of the decade. This represents 315,000 more cars than the 1.4m sold by Japan in the region last year.

Japan's industry is also set to take the lion's share of growth in the rapidly expanding markets of the Pacific Rim, according to the study*. Sales in the region are forecast to grow by 60 per cent in the decade to 2005.

With Japan's share of the new car market already approaching 90 per cent in three of the biggest Asean markets – the Philippines, Indonesia and Thailand – and 70 per cent in Taiwan, "the Japanese stranglehold on the region will yield spectacular potential for further growth," the report predicts.

The Japanese advance in these markets will be driven partly by increased manufacturing capacity within the region. However, Japan will also benefit from a short-term exports boost made possible by Pacific Rim nations lowering or abolishing import tariffs in order to meet World Trade Organisation regulations.

Even the US will not be exempt from the new Japanese push. There, Japan's share of new car sales is projected to rise from 30 per cent to 34 per cent by 2005.

The main beneficiaries of the surge in Japanese car sales are expected to be Toyota, Honda and Mitsubishi as they adjust the balance between production at their US factories and exports from Japan in order to take advantage of the weaker yen, the report predicts.

Direct exports from Japan fell from 4.5m in 1990 to fewer than 2.9m in 1996, but they are forecast to be back over 3m by the end of this year. But the report predicts that just as rationalisation has taken place in the European industry, time is running out for some of Japan's smaller producers.

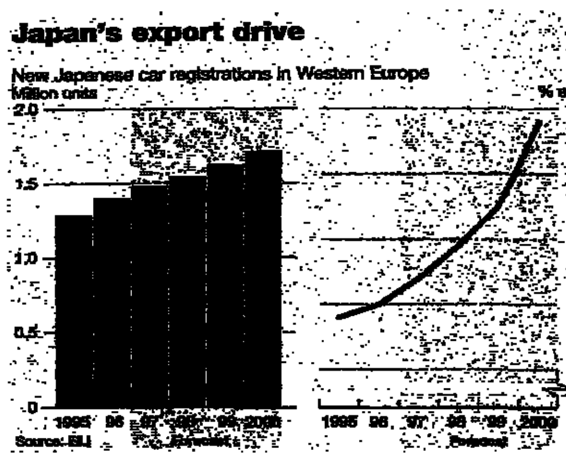
"There will be a number of casualties among the smaller carmakers: Fuji-Subaru, Isuzu and Suzuki are expected to either merge with larger car makers or gradually withdraw from manufacturing completely by 2005".

Overall the EIU expects world sales of new cars to grow from 35.1m last year to about 40m in 2005, with the number of cars in use rising to 593m from 513m. Within this total, mature markets are predicted to show little or no growth. Sales are well below the vehicle industry's manufacturing capacity of 68m cars and commercial vehicles a year.

Slower growth in established markets is expected to be offset by rapid growth in the developing world, led by Indonesia with 18.4 per cent between last year and 2005; Vietnam 14.3 per cent; India 12.3 per cent; and China 11.5 per cent.

The report strikes a note of caution about the prospects of South Korea's car industry achieving its ambitious production targets. Hyundai, Daewoo and Kia want to raise their combined capacity to around 4.2m units a year by the end of this decade. However, EIU believes production will reach only 2.7m units by 2000, which will mean only 64 per cent of their capacity being utilised.

**World Car Forecasts 1997, the Economist Intelligence Unit, 15 Regent St, London SW1Y 4LR. £695 ($995).*



Made (partly) in the USA

By Nancy Dunne in Washington

The US Federal Trade Commission yesterday proposed dramatically lowering the domestic content required for a product bearing a "Made in USA" label.

Currently, products with USA labels must be almost 100 per cent manufactured domestically. Under the proposal a product could use the label if 75 per cent of its manufacturing costs are incurred in the US.

The FTC, the independent agency which promotes competition, said it proposed the new guidelines to reflect the changing global marketplace where the manufacture of many products involves more than one country.

Its proposal is likely to prove controversial. Studies show that American consumers prefer US-made goods – all other factors which go into a purchase being equal – and believe a USA label means a product is wholly produced in the country.

Under the proposed new rules a product could bear a USA label if it meets one of two tests: at least 75 per cent of the manufacturing costs are incurred and the product was last "substantially transformed" in the US, or the product was last "substantially transformed as were all its components.

The FTC used a bicycle as an example. Its frame is manufactured in the US, but its tyres, gears and other components are imported. If the US costs constitute at least 75 per cent of the total costs and the bicycle is assembled – and "substantially transformed" – in the US, than it gets the USA label.

Most consumers responding to the FTC's call for public comments supported the current standard.

World pharmaceutical sales rise but growth loses momentum

By Daniel Green

Drug sales in the world's biggest markets are growing at a slightly slower pace than in 1996, according to figures from IMS International, the specialist pharmaceuticals market researchers.

Sales in January and February in 10 of the world biggest markets were $26.4bn, up 6 per cent on the first two months of 1996. The growth rate for the whole of 1996 was 7 per cent.

The growth was driven by the US, the fastest growing and largest national market. Sales grew 10 per cent, excluding exchange rate movements, to $10.0bn.

At the other end of the scale were the second and third biggest markets, Japan and Germany. Sales in Japan grew 1 per cent to $6.3bn while sales in Germany fell 1 per cent to $2.6bn.

Sales by medical area show sharp differences. Fastest growing are anti-infectives, which include antibiotics and anti-virus drugs such as Aids treatments.

Sales of anti-infectives rose 13 per cent to $3.2bn, making it the fourth biggest medical area.

The growth was helped by a more virulent influenza season than in the first two months of 1996 in some countries.

Anti-infectives sales in the US rose 22 per cent to $1.2bn and in Japan they rose 13 per cent to $840m.

Also growing quickly were nervous system drugs which include Prozac, made by Eli Lilly.

Several competitors to Prozac have been launched and are growing more quickly, helping nervous system drug sales to grow 10 per cent to $3.6bn.

Once again, US growth led the way with sales up 15 per cent to $1.9bn. France and Spain also saw rapid growth, up 13 per cent to $351m and 14 per cent to $115m respectively.

Digestive system drug sales grew far more slowly, even though the section includes the two biggest selling drugs, Losec, from Sweden's Astra, and Zantac, from Glaxo Wellcome of the US. Zantac is in the midst of a series of patent expirations and sales are falling. Digestive system drug sales rose only 4 per cent to $4.2bn.

Heart drug sales have also been hit by the expiry of patents, such as that of US company Bristol-Myers Squibb's Capoten. Heart drug sales grew 4 per cent to $5.2bn, but they remain the biggest selling medical area.

The data cover sales of prescription medicines in the US, Germany, France, the UK, Italy, Canada, Spain, Belgium and the Netherlands. For Japan, both prescription and hospital-dispensed drugs are included.

World pharmacy drug purchases January-Feb 1997 ($m)

	US	Japan**	Germany	France	Italy	UK	Spain	Canada	Belgium	Neths
Cardiovascular	1,791	1,117	623	654	331	228	180	168	69	68
Alimentary/Metabolism	1,600	997	412	412	230	229	129	105	46	67
Central Nervous System	1,882	578	308	351	163	190	115	109	54	40
Anti-infectives	1,159	840	231	341	258	85	116	56	47	22
Respiratory	1,066	468	292	273	146	170	105	68	40	46
Musculo-skeletal	365	432	114	117	86	69	39	28	15	10
Genito-urinary	616	122	152	139	72	67	30	36	14	18
Others	1,509	1,908	457	336	49	59	131	106	43	44
Total	9,988	6,262	2,589	2,623	1,543	1,196	845	676	328	313
% change*	10	1	-1	7	6	5	7	8	4	2

* Changes exclude currency movements ** Includes hospital-dispensed drugs Source: IMS International

NEWS: INTERNATIONAL

More Americans wired to the Web

By Paul Taylor in London

The US no longer leads the world in personal computer use – a similar proportion of Canadians, Australians, Hong Kong residents and the Dutch have PCs – but the US still holds a sizeable lead in the ownership of modems, the communications devices that enable PCs to be connected to the Internet and online services.

According to a worldwide survey conducted by the Brussels-based International Research Institutes, a network of independent marketing research companies in 22 countries, Australian consumers report the highest proportion of PC ownership – 52 per cent.

The Australians are closely followed by the Netherlands (43 per cent), the US (43 per cent), Hong Kong (41 per cent) and Canada (41 per cent). At least a third of all adults also own a PC in Sweden, Finland, Switzerland and Germany.

The lowest levels of PC penetration among the countries surveyed were in Turkey (2 per cent), Peru (6 per cent) and Mexico (9 per cent).

The study, called "Business and Consumer Attitudes to the Internet", also reveals that the ratio of modems to PC ownership is highest in the US (74 per cent) and Canada (58 per cent) and lowest in southern Europe dipping to 19 per cent in Italy.

Overall the number of adults owning a modem and therefore having access to the Internet is still very low – generally less than 15 per cent except in the US (32 per cent), Canada (24 per cent), Hong Kong (17 per cent) and Australia (23 per cent).

However, the report notes that "this figure is beginning to show large increases in higher-income homes which are more likely to access the Internet".

Significantly, virtually every adult in the main countries surveyed had heard of the Internet – "a leap forward from earlier results where few consumers were familiar with the term."

The large gender gap, evident in many areas previously, has all but disappeared in most countries.

Most use of the Internet is made by computer users in the US, Sweden, Hong Kong, Australia, Finland and Canada.

In Hong Kong 94 per cent of adults with a PC and modem access the Internet from home, followed by the US (84 per cent), Sweden (83 per cent) and Britain (67 per cent).

Business and Consumer Attitudes to the Internet: Full Report $500; free executive summary from IriS Network: tel: +32 2 344 35 81; fax: +32 2 343 98 28; e-mail: 100517.3211@Compuserve.com

Wanted: tough surgeon for WHO

The world health body needs a new director to implement drastic cuts

It wasn't on the agenda, but it was the burning issue for delegates yesterday at the World Health Organisation annual assembly: who will succeed Dr Hiroshi Nakajima as head of the United Nations agency?

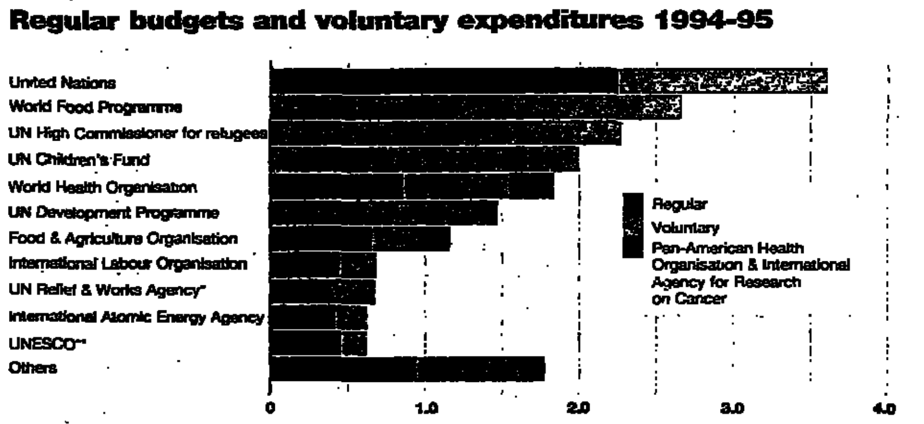
Speculation centred on Ms Gro Harlem Brundtland, former prime minister of Norway and a doctor, and Dr Nafis Sadik of Pakistan, who heads the UN Population Fund.

There are also at least four potential inside candidates, including the regional directors for Africa, the Americas and south-east Asia as well as one of Dr Nakajima's deputies.

Whoever follows Dr Nakajima faces a difficult task of restoring staff morale and putting the organisation on course to face the challenges of the 21st century. Despite reforms over the past few years, the WHO lacks a coherent vision of its future role in promoting global health and its unwieldy bureaucracy remains largely intact.

Ever-tighter budgets over the past 15 years (exacerbated by US funding cuts) and disagreements among WHO members over the direction the agency should take have not helped. "WHO *has got poorer and poorer* but expectations have got bigger and bigger," says one senior official.

Regular budgets and voluntary expenditures 1994-95



Source: WHO *For Palestinian refugees **UN Educational, Scientific and Cultural Organisation

A lively debate seems likely at this year's assembly which must adopt the organisation's budget for 1998-99 and discuss preliminary proposals for a new health charter to be finalised in 1998, the WHO's 50th anniversary.

The WHO secretariat has proposed a standstill regular budget of $846m for 1998-99. The organisation receives about the same again in voluntary contributions for specific programmes.

However, Washington, which pays a quarter of the regular budget, is pressing for a 5 per cent cut to about $800m as part of its campaign to cut its UN contribu*tions*.

Mr Princeton Lyman, assistant secretary of state for international organisation affairs, said last week that both the WHO and its Geneva neighbour, the International Labour Organisation, could reduce costs by 5-10 per cent by cutting bureaucracy without harming programmes.

Even by UN standards, the WHO is extraordinarily top-heavy with about 50 staff at head of department level and above. This number could be cut by half, according to a group of middle managers who have drafted their own WHO reform proposals.

However, one reason there are so many high-level posts is the need to satisfy *regional sensitivities in an* organisation dominated by its seven self-governing regional offices. These take two-thirds of WHO regular budget spending.

"There are really seven WHOs," says a Geneva-based western diplomat. "Each elects its own director-general, has its own budget allocation and decides how to spend it. It isn't in most countries' interests to change the system, even if they recognise the problems."

Vested interests and meagre resources have also complicated the task of updating the WHO's Health for All strategy, originally launched in the 1970s. While the goals are impeccable, the WHO itself can do only so much *directly to bring them about*.

Officials point out that the WHO's regular budget is roughly the same as that of a medium-sized hospital in a western country. Its total resources are only a third of the World Bank's planned spending on health this year.

The US and most other industrialised nations want the WHO to focus on those areas where it has a "comparative advantage": setting standards, identifying best practices, and giving information and advice. They would confine "hands-on" technical work to areas where the organisation is uniquely well-placed to act, such as the control and eradication of infectious diseases.

But developing countries want a greater emphasis on help with practical implementation of national health policies. Other critics complain that the WHO's role in collecting, analysing and publishing comprehensive health data is being neglected. Many are urging a much bolder stand on internal reforms.

"We need a director-general who can make the WHO the international leader for health in the 21st century . . . and demand management that is tough, smart, strong and transparent," Ms Donna Shalala, US health secretary, told the assembly yesterday. It is an ambitious *prescription for any candidate*.

Frances Williams

Arabs look to US to rekindle peace talks

Can US envoy Dennis Ross find a formula to restart negotiations, asks **David Gardner**

US special envoy Dennis Ross returns to the *Middle East* tomorrow seeking a formula to restart talks between Israelis and Palestinians, amid little sign of Arab mistrust of Israel abating.

With the hardline government of Mr Benjamin Netanyahu moving to seal off Arab east Jerusalem from the Palestinian West Bank, and with a new *intifada* (uprising) against Israeli occupation taking shape, Arab leaders feel they can no longer resist popular pressure to shun Israel.

"In Jerusalem they are playing around with religion," says an Arab diplomat. "And when you play with religion in this part of the world, you're playing with something outside everybody's control."

The 22-nation Arab League last month decided to start rolling back the diplomatic and commercial ties developed since the Middle East peace process started at the Madrid conference of October 1991. Arab officials say the purpose is twofold.

First, to send a message to the Israeli people that their future will not be secure as long as their government continues to colonise land conquered from the Arabs in 1967. Second, to try to ensure that the crisis over Jerusalem does not hand the initiative to Islamic fundamentalists throughout the region and threaten not only the peace process but the stability of Arab regimes.

Mr Netanyahu, by reneging on the historic compact underpinning regional détente – the return of Arab land in exchange for recognition of Israel and the right of its people to live in peace – has forced the fissiparous Arabs to unite.

Arab governments see in Israel's decision to build Jewish homes at Har Homa the last rampart in Israel's encirclement of east Jerusalem with a wall of settlements. If Mr Netanyahu does not change course, they expect the West Bank street fighting of the past month to escalate and more suicide bombings against Israelis. And they fear the *de facto* annexation of Jerusalem is so inflammatory to the Arab and Moslem masses that it could set the region ablaze.

Mr Netanyahu's intentions "were clear to us as soon as he assumed office," says Mr Amr Moussa, Egypt's foreign minister. "But President [Hosni] Mubarak wanted to give him a chance, and to talk to him." Mr Mubarak and King Hussein of Jordan have recently said publicly that they have had enough of the Israeli leader promising them one thing and doing another. "I would like to believe him [Mr Netanyahu], at least once," the Egyptian president said acidly last month.

> 'The de facto annexation of Jerusalem is so inflammatory it could set the region ablaze'

The main target of the roll-back in relations is Israeli public opinion. Polls show that most Israelis want a peace settlement with the Palestinians, and with Syria. Mr Netanyahu told Israelis that a tougher stance towards the Arabs would bring peace and security, says Mr Osama el-Baz, President Mubarak's chief political adviser, "but he hasn't delivered either".

"The question is whether Netanyahu can afford to appear in the eyes of his own people as the one who undermined the peace process. We believe that if this reaches deadlock, Israel will face an internal crisis," and "the Israeli people will begin seriously to worry about the future of their state in the region and what will ensue." Like some of his peers in the region, Mr el-Baz believes Israelis will push for new elections before the situation becomes irretrievable.

In the near half-century of Israel's existence, its people have invariably responded to outside pressure by closing ranks. But Israelis now are deeply divided over how to deal with their neighbours.

Above all, Israel has basked in its emergence from isolation. Diplomatic recognition of Israel has doubled during the peace process from 85 to 161 states, unlocking lucrative new markets and a torrent of inward investment. All this has required Arab legitimation, which is now being withdrawn.

The second destination of the Arab message is Washington. As principal sponsor of the peace process, the Arabs regard US mediation as vital. But as Israel's main ally, the Clinton administration, especially after two recent vetoes in the UN Security Council of resolutions condemning Har Homa, is increasingly seen as biased.

Officials from pro-American Egypt, Jordan and Saudi Arabia all say there must come a point at which Washington recognises that its interests in the Middle East are diverging from those of Mr Netanyahu's Israel, and that its lack of even-handedness is dangerously exposing its Arab allies.

"Unless the Americans make clear to [Mr Netanyahu] that he has crossed the line for the last time then, even with a freeze on Har Homa, this will still blow up in all our faces," a diplomat from the US-allied camp warns.

The Arabs are hoping Mr Ross will come up with a bridging formula for the new secretary of state, Mrs Madeleine Albright, to bring to the region.

"If this formula doesn't command the support of everybody in the region from minute one, then we are in for very serious problems," says Mr Moussa.

WEAPONS THAT BLIND OR POISON HAVE BEEN BANNED. SO WHY IS THE WEAPON THAT DID THIS STILL LEGAL?

There are some weapons so abhorrent that their use simply cannot be permitted.

The horrific effects of poison gas in World War I saw this weapon banned in 1925.

The insidious blinding laser joined this list in 1996.

But there is one weapon that causes untold human suffering and still continues to be used.

That weapon is the landmine.

Anti-personnel landmines are frequently laid in a haphazard fashion and continue to operate long after a conflict has ended.

Which means the victims tend not to be soldiers with ample medical support, but poor men, women and children playing no part in the conflict.

Today, somewhere in the world the life of another young child will be cruelly shattered by one of these weapons.

Just one of seventy civilians who fall victim to the landmine every single day.

That is why the International Committee of the Red Cross is leading the call for a total ban on the production, export, use and stockpiling of anti-personnel landmines.

The weapon that mutilated this defenceless child cannot be allowed to continue its carnage.

Before another century starts, landmines must be stopped.

COMITE INTERNATIONAL GENEVE

INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

LANDMINES MUST BE STOPPED

NEWS: THE AMERICAS

Officials hope Clinton state visit will smooth out friction over Mexican drug cartels

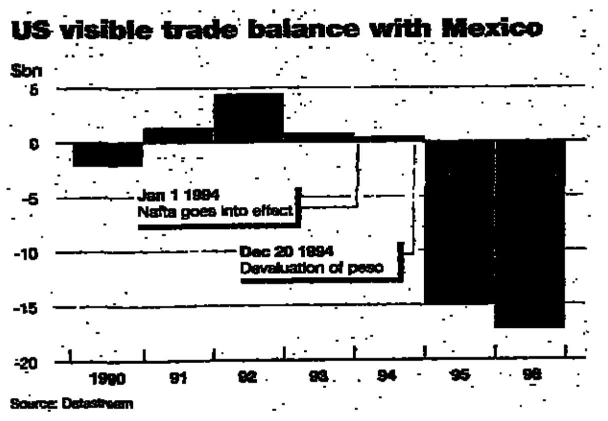
US and Mexico seek common ground

By Leslie Crawford in Mexico City

US and Mexican cabinet ministers, meeting in Mexico City in advance of President Bill Clinton's arrival yesterday, *sought to find common* ground on trade, drug interdiction and migration issues which lie at the heart of the complex and often fractious relationship between the two countries.

The binational commission, which brings together 16 working groups, is the most extensive consultation mechanism between the US and any foreign government.

On the occasion of Mr Clinton's first state visit to Mexico, both sides appeared keen to emphasise the strength of their partnership in the North American Free Trade Agreement (Nafta) over and above the issues which divide them.



"Nafta really proved its mettle during [Mexico's financial] crisis," Mr Robert Rubin, US Treasury secretary, said in Washington before departing for Mexico.

The emergency $12.5bn Treasury loan which staved off a Mexican default in early 1995 had been fully repaid, Mr Rubin said, and the American taxpayer had made "a substantial profit on that loan".

Mexico has become the third largest trading partner of the US, after Canada and Japan, since it joined Nafta in 1994. Bilateral trade has grown by 65 per cent to $140bn in 1996.

Although the peso devaluation in December 1994 turned Mexico's trade deficit with the US into a $5bn surplus last year, the Clinton administration, which wants to negotiate more free trade agreements in Latin America, points out that US exports to Mexico are at record levels.

"A stable, prosperous Mexico is very important to us economically and important to us in terms of our national security," Mr Rubin said.

The greatest threat to Mexico's stability, according to US officials, comes from the entrenchment of Mexican drug cartels, which now control more than 60 per cent of the cocaine entering the US, and which have succeeded in corrupting large swathes of Mexican officialdom.

"There is no question that Mexico's democratic institutions are under attack from within," says General Barry McCaffrey, director of the White House's office for drug control policy.

Mexican officials hope this week's bilateral discussions will help rebuild the trust that was shattered after Mexico's top anti-narcotics officer was arrested in February on charges of being in the pay of drug traffickers.

The arrest prompted Mr Thomas Constantine, director of the US Drug Enforcement Agency, to tell US congressmen: "There is not one single law enforcement institution in Mexico with whom the DEA has an entirely trusting relationship."

US officials say they expect only "incremental steps" on drug-interdiction co-operation to come out of Mr Clinton's discussions with President Ernesto Zedillo.

The presidents are expected to sign an accord to strengthen the detection of money laundering.

Mexico will also speed up the extradition of drug criminals who are wanted for trial in the US. But a request by the Drug Enforcement Agency for its agents to be allowed to carry guns in Mexico has been firmly ruled out by President Zedillo.

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The audience looks on as Kasparov contemplates his next move against Deep Blue in Sunday's match AP

Chess champ 'Deep Blue' over defeat

By Paul Taylor

Chalk one up for the techies. Deep Blue, International Business Machine's supercomputer powered by silicon but programmed to play like a human, defeated a glum Garry Kasparov, the world chess champion, to level the score at one game each in their six-game re-match under way in New York.

The victory by the upgraded 1.4-ton machine was hailed by Mr Joel Benjamin, Deep Blue's grandmaster team consultant. "This was real chess, not computer chess," he told the audience. "This was a game any human grandmaster would have been proud to play."

Usually computers excel at complicated tactical struggles in which their massive calculating abilities give them an edge. However, chess experts said that in this match Deep Blue demonstrated it "understood" positional concepts too.

Deep Blue's victory came after 45 moves and three hours and 42 minutes of play and was only the second time in history that a computer programme had defeated a reigning world chess champion.

The first time was in February last year in Philadelphia when Deep Blue's predecessor won the first game and drew two others before Mr Kasparov eventually won the six-game contest.

In the aftermath of the Philadelphia match, Deep Blue's six-member team of computer scientists and chess experts returned to their laboratories to plot revenge and build a bigger, better and smarter machine.

"I think the major difference is that in the last match we brought a lot of technology and this time we have brought a lot of human input," said Mr Hsu Feng-Hsiung, one of the team.

The main "human input" was the addition of Mr Benjamin to the team as a full time adviser. He has since helped infuse the system with much more chess knowledge and a greater appreciation for strategy.

Another important change is that Deep Blue's software has been written in such a way that it can be "tweaked" between games to improve its performance. One factor said to be behind Mr Kasparov's 1996 win was that he learned to recognise and exploit the computer's weaknesses.

'A game any human grandmaster would have been proud to play'

In addition, Deep Blue has been given more memory and twice the calculating speed of its predecessor, thanks mainly to its super-fast 32-node IBM RS/6000 SP parallel processor and specialised microchips for chess.

All this power enables Deep Blue to analyse 200m positions a second compared with Mr Kasparov's three. Despite this, Deep Blue is devoid of visceral belief and gut instinct.

Some commentators have described the match in terms of a struggle between humanity and technology. However, Mr C J Tan, Deep Blue's team leader, eschews the notion that the machine is a threat to the collective human psyche. He said the match was about "how man and machine will work together to solve problems in the future".

The third game was scheduled for last night and the match ends on May 11. If Mr Kasparov does triumph again he will win $700,000. He will receive $400,000 if he loses.

Punters the losers in racetrack wrangle

Leslie Crawford reports on the politically loaded dispute which led to closure of Mexico City's Hipódromo

Mexico's aristocracy is passionate about horses. Invitations to haciendas, where thoroughbreds can be admired and government contracts broached discreetly, have long been a favourite way to mix pleasure and business.

But for many months now, the country's elite has been denied access to one of its favourite playgrounds: the Hipódromo de las Américas, an exclusive racetrack in Mexico City, which was abruptly closed down by government troops in August last year.

Don Justo Fernández, who held the racetrack concession, sported impeccable credentials. He is married to the niece of a former president, owns several businesses in his home state, Veracruz, breeds racehorses for a hobby, and is a member of the Mexican Council of Businessmen – the club of Mexico's 38 richest men.

Don Justo was also a family friend of Mr Carlos Salinas, Mexico's former president, and both Carlos and his brother Raúl, keen horsemen, were frequent guests at Don Justo's hacienda in Veracruz. So, no one was surprised when, in 1992, the Salinas government renewed his concession title to the Hipódromo for another 25 years.

The snakes and ladders of Mexican politics, however, have ensnared many a businessman before Don Justo. Mexico's financial crisis in 1995 sent Mr Carlos Salinas into exile and sent Mr Raúl Salinas into jail on charges of murder and graft.

It also ushered in a new cabal of politicians hungry to consolidate their financial clout.

The reason given for the withdrawal of the racetrack concession was the oldest in the book: Don Justo had apparently neglected to pay his taxes – never a problem in Mexico with the right political connections, but a capital sin if one should fall out of favour with those in power.

At the Hipódromo, where clouds of dust swirl around the empty grandstands and the fences of empty stables creak with neglect, few mourned Don Justo's demise. "He was a poor administrator," says Mr Cesar Garcia Ortega, president of the Racehorse Owners' Association.

"He did nothing to promote the racetrack; attendance and prize money declined; the Hipódromo was no longer the great show it had once been."

In early 1996, Mr Garcia Ortega led a rebellion of owners and jockeys. Don Justo had not raised prize-money in four years, and with the devaluation of the peso, the owners could barely cover the upkeep of their thoroughbreds.

"We threatened to boycott the races, and the relationship became very tense. Don Justo still wanted to dictate the terms," Mr Garcia Ortega says.

"We were very relieved when the government finally took action and withdrew Don Justo's concession. What we had not gambled on was that the racetrack would remain closed for a year."

Don Justo's son, who is also named Justo, blames the Hipódromo's declining fortunes on competition from out-of-state betting shops, which were not required to pay Mexico City's hefty local taxes and so could offer better odds.

Jockeys on horseback and racetrack workers blocking Mexico City's Periferico thoroughfare last year in protest at the racecourse closure Reuter

"When these bookmakers opened for business, betting at the Hipódromo fell by one-third," he says. "People still came to enjoy the races, but they were placing their bets over their cellphones. Then the financial crisis struck Mexico, and our takings fell by a further 40 per cent."

Don Justo Jr says the racetrack struck a gentlemen's agreement with Mexico's Interior Ministry, which regulates the gambling industry, whereby part of the taxes levied on bets would be channelled into reinvigorating the races with better prize money.

The agreement was signed on August 29. The following day, however, the shock troops were sent in.

At the Interior Ministry, Mr Juan Burgos, the director, denies that he ever agreed to any tax breaks.

The Interior Ministry official who signed the agreement had no authority to rescind the government's fiscal rights, he says.

Mr Burgos plans to auction the racecourse concession later this month. He says eight groups have applied to bid for the Hipódromo, including Ladbroke of the UK, Greenwood Racing, which owns three racetracks in the US, Sisal Sports of Italy and Equus Gaming of Puerto Rico.

He is more coy about revealing the names of the Mexican partners who, by law, must be the controlling shareholders of the concession. But in recent days, the Mexican press has been awash with rumours that several friends of Mr Emilio Chuayffet, the interior minister, have been angling to be included in the winning combo.

Don Justo and his sons, meanwhile, have refused to accept defeat. They are seeking an injunction through the Mexican courts to have their concession reinstated.

Failing that, they want the government to compensate them for the $32m they claim to have spent since 1992 on refurbishing the racetrack and installing state-of-the-art tote systems and satellite dishes for the transmission of international racing events.

Mr Burgos is unmoved. He says any improvements undertaken by the previous concessionaires reverted to the government when their licence was withdrawn.

But the international groups which are bidding for the Hipódromo are understandably nervous about the ongoing legal dispute.

"Nobody wants to become embroiled in litigation," says Mr Bob Green of Greenwood Racing. "We will seek appropriate safeguards from the Mexican government if our bid is successful."

Don Justo's son strikes a note of warning: "The same guarantees we were given are the ones the new concession holders will have," he says. "And ours, apparently, were not worth the paper they were written on."

Shake-up in Chilean party

By Imogen Mark in Santiago

Elections in Chile's ruling Christian Democrat party on Sunday have unseated its leadership. The effect will be to modify the party's unquestioning support for the country's President Eduardo Frei, and slow down decision-making in government and Congress.

The dissidents, led by Mr Enrique Krauss, interior minister in the previous government and a veteran party leader, won narrowly, taking 50.6 per cent of the votes compared with the 49.4 per cent for Mr Krauss's opponent as party president in the second round of the poll.

More than half the 110,000 members voted. In the first round, on April 6, Mr Krauss lost by only a handful of votes, and there were mutual accusations of fraud and manipulation.

The rival candidate, Mr Gutemberg Martinez, was backed by most of the party establishment, including Chile's former president, Mr Patricio Aylwin, Mr Alejandro Foxley, the outgoing party president and former finance minister, and most congressmen. After the first round Mr Martinez wanted to negotiate a consensus executive but Mr Krauss insisted on the second round.

Mr Foxley believes the election has been at best a return to old-style Chilean, and Latin American, politics. He said: "The traditional way of doing politics [foments] power struggles, destructive competition, personal rivalries."

The outcome could lead to a split in the party and in the ruling centre-left coalition, the Concertation for Democracy.

Mr Foxley sees the mood in his own party as a serious threat to the consensus-building of the late 1980s, which united Christian Democrats with the democratic left in a coalition which has brought Chile stability since 1990.

Bolivia's pensioners see benefit of sell-offs

Ambulances will be standing by at football stadiums in Bolivian cities today as thousands of elderly people flock to collect $250 in cash – the first payment of the "Bonosol" or solidarity bond, a universal old-age pension unprecedented in Latin America.

In the next few months, more than 300,000 people of 65 or over are expected to claim the benefit.

Two thirds already have the necessary documentation: thousands more are queueing outside police stations to register for identity cards. For many, who live largely outside the formal economy, it is the first time they have bothered to do so.

The Bonosol, to be paid annually, is equivalent to about a third of average per capita income. "It's an income transfer that will make a tremendous difference, especially in the rural areas," says President Gonzalo Sanchez de Lozada.

It is a uniquely Bolivian formula for redistributing proceeds of "capitalisation" – the country's retained share in former state-owned companies now transferred to private sector "strategic partners".

In the past two years, management control of five monopolies – in electricity generation, rail and air transport, telecoms and hydrocarbons – has passed to new, foreign operators along with 50 per cent of each company's equity.

Although all were offered through a public bidding process, Bolivia's novel capitalisation mechanism ensures that, instead of going into the treasury coffers, the amount bid is injected into the company as fresh capital.

The state gets no cash from the transaction. But, as today's Bonosol payments finally prove to an often-sceptical public, the Bolivian people do. The 50 per cent shareholding in the capitalised companies corresponding to the state has been transferred to two private pension funds or AFPs, selected through international tender.

They will manage the $1.7bn "collective capitalisation fund", which pays the Bonosol, while simultaneously setting up an individual pension fund system along the lines of those operating in Chile and Peru.

"Futuro de Bolivia" is dominated by the Spanish Argentaria banking and financial group. Invesco, the London and Atlanta-based fund manager, has a 10 per cent stake; several minority partners include a local insurance group and a consortium of five non-governmental organisations with many years experience in delivering micro-credits to rural smallholders, miners and artisans.

Spain's Banco Bilbao Vizcaya is the prime mover behind "Prevision BBV". Its partner is Bolivia's Banco Industrial (BISA), a leading domestic financial services group.

Bolivian territory has been divided between the two. Futuro de Bolivia, winner at auction with the lowest offer on commissions, chose to operate in the Andean highlands, leaving Prevision BBV to cover the eastern lowlands.

The treasury gets no cash from sales of state enterprises, but people do

They will compete for clients in the largest cities: La Paz and its satellite El Alto, Cochabamba and Santa Cruz. In rural areas, elderly peasants will collect their Bonosol from mobile AFP-operated vans.

"It's been a race to get everything ready in time," says Mr Marcelo Zabalaga, general manager of Futuro de Bolivia. He spearheaded the initiative to set up the AFP. Over the past two years, he has closely studied Chilean and Peruvian experience in creating a private pension system from nothing.

Although Futuro de Bolivia has contracted technical support from Profuturo, a leading Peruvian AFP, to help set up operating systems, the Bolivian pension fund scheme differs substantially from those in other Latin American countries.

First, the AFPs start with a very substantial fund to administer: $1.7bn is equivalent to more than a quarter of Bolivia's gross domestic product.

Second, the old and inefficient social security system – backed by three dozen co-called "complementary funds" – has been liquidated and contributors assigned to one or other of the new AFPs.

"It was a bold and courageous decision by President Sanchez de Lozada," said Ms Martha Kelly of Ernst & Young, advisers on the scheme's promotion. "A new system can't work properly with the old one existing alongside."

Third, with only two AFPs sharing the market, commissions are exceptionally low.

Expenditure on the sort of cut-throat publicity campaigns seen in other countries will be absent.

For President Sanchez de Lozada, the establishing of the AFPs is an essential complement to divestiture of the state-owned companies.

"Capitalisation means an important injection of foreign investment," he said in a recent interview. "But pension reform means capital formation, stock and bond markets almost overnight. What Bolivia needs is local savings to complement foreign investment."

This first year's Bonosol – expected to cost $70m – will largely be covered by dividends already produced by the capitalised companies. The government will cover a shortfall of $25m with a bridging loan.

Next year, however, the AFPs expect to start listing and trading shares in the (now) 10 limited companies created from the old state-owned five. "We don't yet know which shares or how many, but we'll have to sell," says Mr Zabalaga. This should kick-start activity in the sleepy Bolivian stock market.

Bolivia's political opposition is threatening modifications to the Bonosol in the wake of the anticipated defeat of Mr Sanchez de Lozada's MNR party in elections scheduled for June 1. But politicians of all persuasions and the business community seem to support the AFP system.

Sally Bowen

Prime minister puts faith in 'politburo' to exercise tight control over departmental empires

Byzantine look to prime minister's command structure

By Robert Peston and George Parker

The somewhat Byzantine nature of Mr Tony Blair's government started to become apparent yesterday as details of the command structure were revealed.

There is a cabinet, a cabinet-in-waiting and an unofficial politburo, which will probably take most of the important decisions. Then there are two departmental empires, that of Mr Gordon Brown at the Treasury – who has tentacles into social security and employment – and Mr John Prescott's super-ministry, combining environment, transport and regional policy.

It may involve costly duplication and may look unwieldy, but Mr Blair and his close allies are pinning their faith on the ability of the overarching politburo to exercise tight control.

The prime minister believes the chains of command that worked in opposition are appropriate for the different challenges posed by government. So a small, tightly knit group – consisting of Mr Blair, Mr Gordon Brown, the chancellor (finance minister), Mr Peter Mandelson, who will help guide strategy, and Mr Alastair Campbell, the prime minister's press secretary – will continue to meet regularly to set overall strategy and co-ordinate presentation of policy.

Individual departments will have to clear every announcement through Mr Campbell at Downing Street. Mr Campbell reinforced the point yesterday by writing to the information heads at all government departments saying that all interview requests have to be cleared through his office.

"We can't afford to make any mistakes, especially at the start," said a Downing Street official. "The first time any department announces anything which is different from our manifesto the press will come down on us like a ton of bricks – and rightly so."

Blair loyalists will also try to get a grip on the civil service machine, with appointments involving three officials who have worked tirelessly for Mr Blair in opposition. These are:

- Mr David Milliband, who will be the senior full-time member of a new policy unit;
- Ms Sally Morgan, who will be political secretary with the job of ensuring the national party is a support to Mr Blair rather than setting itself up as a *de facto* opposition;
- Mr Jonathan Powell, whose title is chief of staff and who will replace Mr Alex Allan as the prime minister's principle private secretary when Mr Allan moves on.

Another pivotal figure is Lord Irvine, the Lord Chancellor and Mr Blair's former pupil-master when he was training to be a lawyer. Lord Irvine is expected to chair a number of important cabinet committees, where much of the important business of government is conducted.

Mr Mandelson will probably sit on many of these, although not as a full member of cabinet.

The cabinet may, therefore, feel it is not the government's main decision-making body. The only cabinet minister who has been given a more powerful job than be expected is the deputy prime minister, Mr John Prescott.

However, he assembled his team yesterday without any clear idea how his empire would operate, where he would be based, or how his ministerial team would divide responsibilities.

Mr Prescott possesses probably the longest job title in Whitehall history – deputy prime minister and secretary of state for environment, transport and the regions – but he will have to sketch out the job description himself.

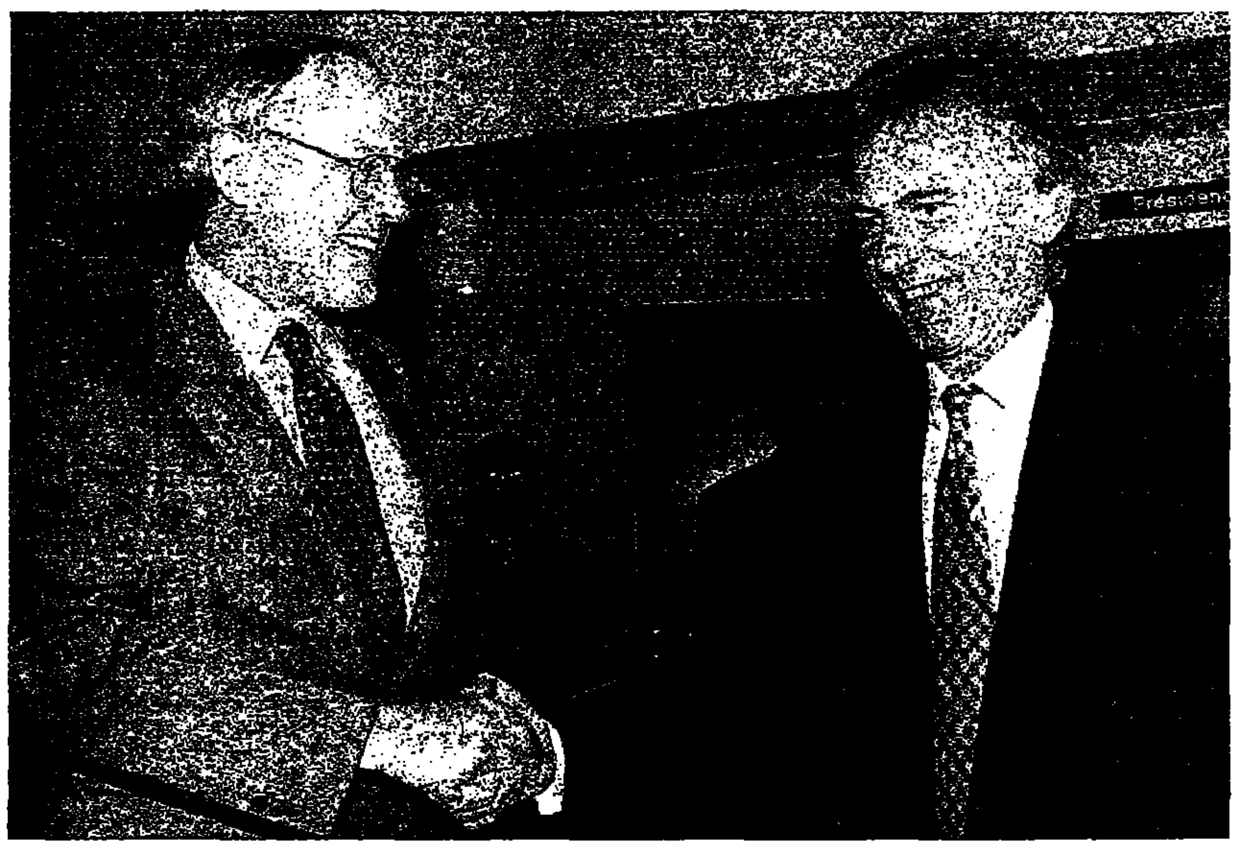
The deputy prime minister insists that he will be in complete control of all aspects of his new brief. "Prescott is saying that he is the boss – he says he is going to do everything," said one official.

But while Mr Prescott is in danger of spreading himself too thinly, other cabinet members are likely to worry they are under-employed. When, for example, one of Mr Blair's close allies was asked the responsibilities of Mr David Clark, the chancellor of the duchy of Lancaster, the reply was: "God alone knows."

Meanwhile, the existence of a Praetorian guard of arch-Blairites as ministers of state further reinforces the impression that the cabinet is neutered. In theory they are deputies to their respective cabinet ministers, but given that many are closer to Mr Blair than fully-fledged cabinet members, they may become more influential than their masters.

The Department of Health is a hotbed of thrusting Blairites, containing both Ms Tessa Jowell and Mr Alan Milburn as ministers of state. Another moderniser, Mr Stephen Byers, has been given the plum job of education minister in charge of raising school standards.

"A lot of ministers of state will make names for themselves very quickly," said a close colleague of Mr Blair, adding that the prime minister did not have strong views on how much time had to elapse before a reshuffle.



Reuters

Doug Henderson, right, the UK's new minister for Europe, who pledged a fresh start in relations with the EU, greets Michiel Patijn, the Dutch foreign affairs secretary, before the intergovernmental conference in Brussels yesterday

Plan to cut tax on domestic fuel may breach Brussels rules

By Emma Tucker in Brussels

The government's plan to reduce value added tax on domestic fuel from 8 per cent to 5 per cent could run into difficulties in Brussels by breaching the European Union's rules on indirect taxation.

But the European Commission has admitted that the legal situation is murky and has stopped short of describing the proposed reduction of VAT as a violation of EU legislation. Instead, it has described it as "going against the spirit" of the law.

This may be regrettable for the new government, led by Mr Tony Blair, which is keen to recraft the UK's relationship with its European partners. But it is not enough to deter the government from its plans.

"We can reduce VAT to 5 per cent under the terms of the current directive," said an official close to Mr Gordon Brown, the chancellor (chief finance minister). "This is what we will do in our first Budget."

British diplomats in Brussels appear to share this view. "The commission may see this as going against the spirit of the need to harmonise VAT, but legally it is appropriate," one said.

The problem for the commission is whether to take a tough line over a move which clearly goes against the overall EU aim of harmonising VAT rates and reducing distortions to the single market, or whether to avoid confrontation with a new government that is better disposed towards Europe than its predecessor Much will depend on whether other EU member states complain. Amid concerns over "tax competition", with member states accusing each other of distorting trade through competitive tax reductions, some may argue that they should be allowed to follow suit.

Mr Mario Monti, the commissioner charged with overseeing the harmonisation of VAT rates inside the single market, would be reluctant to see a widening of already considerable tax disparities.

His goal of harmonising VAT rates is still more aspiration than reality. But a minimum rate of 15 per cent has been set for most products – there is no maximum yet – and legislation for moving towards greater harmonisation is under discussion. Britain's VAT reduction would in any case apply only to domestic fuels.

"It is true that, literally speaking, there is no violation of the legislation," the commission said. "But the European Court might decide to interpret the rules by looking at the overall objectives and not just at the actual wording."

The only way to find out would be for the commission to take the UK to court. At present that looks unlikely, and in fact Britain has not yet even drawn up the legislation.

As the commission said: "There are a lot of questions which we can't answer today."

Brown's first test, Page 15

Dutch to press Blair over EU reforms

By Gordon Cramb in Amsterdam

The Dutch presidency of the European Union will this week seek to pin down Mr Tony Blair, the prime minister, on the approach his government will adopt to the planned reform of Brussels structures, which the Netherlands is anxious to resolve before it hosts an Amsterdam summit in mid-June.

Mr Wim Kok, prime minister, and Mr Hans van Mierlo, foreign minister, are to travel to London on Friday for meetings with Mr Blair and Mr Robin Cook, UK foreign secretary. They are likely to be comforted by the positive tone adopted in Brussels yesterday by Mr Doug Henderson, Britain's minister for Europe, at a session of the inter-governmental conference preparing the way for EU enlargement.

The Hague retains concerns that the UK team will *not want to commit quickly* to the detailed formulae necessary to resolve issues such as an extension of majority voting. While Mr Henderson indicated Britain's willingness in principle to agree to the erosion of veto powers which this would involve, the precise weighting of votes within the council of ministers remained on a long list of questions to be settled.

The Dutch are keen to secure a Treaty of Amsterdam which would lay a path opening the EU to the candidate member countries of eastern Europe. This would crown their six-month term in the same way as the Maastricht treaty on closer integration, agreed when they were last in the chair.

The presidency stressed, even before it took over from Ireland in January, that it faced a tight timetable. Since then this has been disrupted by elections in Britain and France. The Hague has redrawn its schedule a number of times to keep the process on course.

Research suggests many are chosen from 'the chairman's Christmas card list', say critics

Independence of non-executives queried

By Jim Kelly, Accountancy Correspondent

Large numbers of the UK's non-executive directors – charged with defending shareholders' interests in the boardroom – are involved in commercial transactions which could undermine their independence, according to research published today.

Taken from published annual accounts by the Edinburgh-based financial monitor Company Reporting, the research shows many non-executives either directly or indirectly receive services from their companies, are involved in consultancy arrangements or are parties to leasing transactions.

A detailed survey of nearly 500 listed companies found that nearly a third of all leasing transactions with "related parties" – linked private companies, management directors or their families – involved non-executive directors.

The research also shows that non-executives are linked to more than half of all consultancy arrangements disclosed and three-quarters of service transactions.

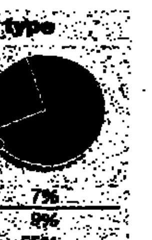
While the vast majority of such transactions may be innocent, the data will support critics of the present system who say such commercial links can lead to non-executives being compromised in their role as watchdogs.

The results will add to the pressures on the committee looking at the effectiveness of recent reforms in corporate governance, led by Sir Ronald Hampel, ICI chairman. There will be calls for independent non-executives to be excluded from all related party transactions.

Related party transactions analysed by type

Total number of companies 475

Evidence of related party transactions	26%
No evidence of related party transactions	74%
Transactions with related parties:	
Trading	7%
Transfer of assets	9%
Rendering or receiving services	55%
Consultancy	6%
Leasing arrangements	13%
Provision of finance	21%
Other	11%



The most common type of related party transaction [illegible] by over half the relevant companies on our database is the rendering of services, but many of the other types are also significant in number.
The percentage figures above are based on the number of companies with evidence of related party transactions.
Source: Company Reporting

The research is the first to look at what companies are disclosing under rules introduced by the Accounting Standards Board last year, which require them to reveal related party transactions. The ASB believes shareholders should know when their company is involved in any transaction which may be concluded on terms other than a purely "arm's length" commercial basis. Such links have led to fraud.

Company Reporting said: "The incidence of related party transactions involving non-executive directors suggests that they are not quite the independent bunch we have been led to believe. Given that recent corporate governance developments rely so heavily upon the role of non-executive directors, this is a worrying revelation."

Ms Anne Simpson, joint managing director of Pirc, the corporate governance pressure group, said the data suggested some companies were choosing non-executive directors on the basis of the "chairman's Christmas card list".

"For some companies at the bottom end of the FTSE 100 and below, the recruiting ground is the company's bankers, lawyers and sometimes even its auditors," she said. "There's a real sloppiness here. It must be almost impossible for many of them to operate as objective critics – to bring a detached view. It really ought to exclude them from any role on the audit committee."

Pro-Ned, the organisation which promotes non-executive directors, said: "The board, auditors and chairman should be picking up these issues."

She added that the disclosures should not just sit passively in the accounts.

Legal wrangle could delay gas bill cuts

By Robert Corzine

Consumers may have to wait up to a year for sharp cuts in gas bills if the dispute between BG and its regulator continues after the Monopolies and Mergers Commission report, due at the end of this month.

BG, part of the demerged British Gas, may seek a judicial review if Ofgas, the regulator, rejects the report's findings on tough price controls for BG's Transco pipeline monopoly.

Ofgas has proposed immediate price cuts of £28 ($45) to an average gas bill of about £350 a year, with subsequent reductions in the next four years.

Gas executives say completion of the MMC report may not end the dispute. The process of establishing new pipeline fees, which were to be introduced in March, has lasted two years.

Executives speak of a "worst case scenario" in which the issue may become the subject of a judicial review that could last until next spring.

The gloomy prognosis stems in large part from events surrounding the publication last month of an MMC report on Northern Ireland Electricity.

Key findings in that case were rejected by the province's electricity regulator.

If Ms Clare Spottiswoode, the Ofgas director-general, adopts a similar position BG may have grounds for a judicial review of the Transco case.

Ms Spottiswoode recently signalled that Ofgas reserved the right to be selective in its implementation of the MMC report. It would not necessarily follow the panel's recommendations "slavishly", she said. Ms Spottiswoode is under no legal obligation to accept the MMC findings.

"We could have the NIE and BG cases in judicial review within three months," said one gas industry executive.

BG is understood to be gearing up for a possible legal challenge. Normally, judicial review of regulatory disputes that have been the subject of an MMC inquiry is only available if a procedural error has occurred. This is not thought to have happened in the Transco case. But regulated companies can also ask for judicial review if their regulator fails to act on MMC findings concerning issues that have an adverse effect on the public interest.

If Ofgas chose to be tougher on the company than the MMC recommended, BG's lawyers could argue that such an action was not in the public interest because it might undermine the viability of the pipeline system. BG would have no legal recourse if Ms Spottiswoode accepted the MMC findings.

Some industry executives say the introduction of competition to the domestic gas market of 19m consumers could also be badly affected if the Transco case goes to judicial review. They note that Centrica, the other half of the demerged British Gas, and its competitors would not be able to set long-term price levels because they would not know how much they would have to pay Transco. Pipeline fees account for about 40 per cent of a household gas bill.

A continuation of the dispute beyond the MMC stage could also result in there being no price controls on Transco after September. A separate legal process launched by BG two years ago will result in the present price controls being lifted unless a new regime is in place. In theory, the regulator would be powerless to stop BG from raising Transco's fees at that time. But in practice BG is likely to continue the present pricing structure.

Bank set to introduce eco-friendly credit card

By Leyla Boulton and Paul Taylor

Britain's Co-operative Bank will launch the "world's first biodegradable credit card" this week in association with Greenpeace, the environmentalist pressure group, and Monsanto of the US.

The card, featuring Greenpeace's protest ship, the Rainbow Warrior, contains no PVC plastic and disintegrates faster than PVC.

The card is made from Biopol, which, unlike plastics made from fossil fuels, is a biodegradable plastic polymer. It is used in consumer products and packaging.

Biopol, pioneered by Zeneca, the UK pharmaceuticals group, has been called "nature's plastic", because it can be produced by ordinary plants.

Monsanto, the US chemicals and genetic engineering group, acquired the Biopol business from Zeneca in April last year.

The partnership of a bank which sees itself as environmentally pro-active and Greenpeace is predictable. But the deal is unusual in that Greenpeace until recently reviled Monsanto for its involvement in developing genetically engineered soyabeans.

The bank, which will donate £5 to Greenpeace for each card issued as well as 25p per transaction, hopes eventually to convert all its credit cards to Biopol.

Biopol is polyhydroxyalkanoic acid, or PHA polymer, produced through the fermentation of micro-organisms.

When it acquired the technology, Monsanto said it would continue manufacturing Biopol using this process. However, it planned to research ways to use biotechnology to produce the polymer in plants.

Monsanto has now developed plants which produce biodegradable plastics as about 5 per cent of their weight. If they can be made to produce them as 10 per cent of their weight, the company believes it will be a commercial proposition. At 20 per cent, "it may become a breakthrough technology".

Because they are biodegradable, the polymers are ideal for products that can be disposed of by composting, such as food packaging, grocery and rubbish bags, and cosmetics.

"The potential to produce biodegradable plastics in a low-cost, renewable production system such as a soyabean or canola crop is tremendously exciting," said Mr Robert Fraley, president of Monsanto's Ceregen unit, at the time of the acquisition.

If the credit card is a success, it is likely that more of the 500m plastic cards in circulation could be converted to biodegradable material.

Such a move would coincide with a shift towards the use of smartcards, which contain a microprocessor and offer better security and flexibility than ordinary cards.

Watchdog warns on credit derivative danger

By George Graham, Banking Correspondent

A top City of London regulator has warned investment banks about the dangers of getting involved in the fashionable new field of credit derivatives, financial instruments that allow banks to pass on the risk that their customers might default on a loan.

Ms Vicki Fitt, executive director for financial risk at the Securities and Futures Authority, which regulates investment banking and broking in the UK, warned banks not to try to get involved in the credit derivatives market without understanding the dangers.

"In the best controlled firms, credit derivatives are likely to pose additional challenges to the internal control processes. In the worst, they are another way for traders to bid for stardom while hiding behind a smokescreen of jargon and complexity," she said.

But the SFA is not seeking to stunt the growth of the new market, which is already estimated to cover more than $20bn of loans and is expected to grow to more than $100bn by 2000.

In fact, the SFA is proposing to treat credit derivatives more flexibly than the Bank of England, the UK central bank, which last year proposed a conservative regulatory framework.

The SFA's treatment would allow banks to hold much less capital as a cushion against their credit derivatives risks.

The simplest forms of credit derivative are known as default swaps or default options. In effect, a bank pays an insurance premium to another bank, which promises to pay up if a borrower defaults on a loan.

But in guidance issued to the firms it regulates, the SFA warned derivatives carried a greater legal risk than a traditional bank guarantee. "Guarantee documentation has been tested in the courts over centuries, whereas the default option documentation is as yet untried," it said.

Where the SFA differs from the Bank is in considering that most credit derivatives should be treated as trading positions. This imposes a lower capital charge than if they were treated as banking assets, as the Bank requires.

A Bank discussion paper expressed reluctance to allow banks to move credit default derivatives from banking books to trading books until they produced more evidence that they were able to model and price the instruments accurately.

Bankers welcomed the SFA treatment, which they said was more pragmatic and left more room for the market to develop.

But the SFA said European Union law prevented it in some cases from recognising that credit derivatives hedged a bank's risk: "It is possible that what seems to be a common-sense approach could be illegal."

LAW

Interest on care award

EUROPEAN COURT

Where a European Union member state has failed to implement properly a directive on equal treatment, damages including interest would be payable to the individual affected, even when the result prescribed by the directive had been met, the European Court of Justice ruled.

The case arose in the context of the non-payment of invalidity care allowance to a woman who had looked after her sick daughter for more than 20 years.

Under UK law individuals are entitled to the allowance for any day on which that person was engaged in caring for a severely disabled person, provided the activity was regular and substantial, the carer was not gainfully employed and the disabled individual was a relative, where applicants met the other criteria before pensionable age.

The 1979 European directive on equal treatment in social protection schemes, applied to employed and self-employed persons whose activities were interrupted by illness, accident or involuntary unemployment.

The directive outlawed sex discrimination. However, member states were entitled to exclude from its scope, the determination of pensionable ages for granting retirement pensions and the possible consequences for other benefits.

Mrs Eunice Sutton applied for invalidity care allowance in 1987, aged 63. The application was refused, on the ground that the applicant had reached retirement age and could not be treated as entitled to the allowance before reaching 60.

Mrs Sutton appealed, arguing the UK provisions breached the directive, since they prevented her, on account of her age, from receiving a benefit to which a man would have been entitled. Her appeal was rejected because the decision fell within the exception excluding the determination of pensionable ages from the directive's provisions and secondly because she was not working when she started to care for her daughter.

She again appealed, and in the light of another judgment by the Court the appeal tribunal found the UK authorities could not rely on the exception to justify their refusal of the allowance to women over 60. Mrs Sutton also provided evidence that she had been in part-time work when her daughter fell ill.

The Social Security Commissioner ordered that she was entitled to the allowance. She was refused interest on the money awarded by the secretary of state on the grounds that interest was not payable on benefits.

Mrs Sutton appealed on the basis that she was entitled to interest as a matter of European law. The matter was referred to the Luxembourg Court.

She first argued that interest should be paid because her situation was analogous to that under another directive on equal treatment in access to working conditions.

The Court said the directives were not analogous. Benefits such as invalidity care allowance were only payable if specified criteria were met and were thus not compensatory in nature.

However, the Court upheld her submission that the right to interest on arrears of benefit followed from the European law principle that a member state is liable for breaches of European law.

The Court said there was no reason why the UK's breach should not be remedied by compensation in the form of interest as long as the criteria laid down by the Court in relation to member states' liability for European law breaches were met.

C-66/95: R v Secretary of State for Social Security, ex parte Sutton, ECJ FC, April 22 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Japanese banks elect spokesman

Naeotaka Saeki, the president of Sanwa Bank, has assumed chairmanship of the Federation of Bankers Association in Japan, the top post in Japan's banking industry.

The chairman is elected annually by the federation's board members from among executives of the country's largest banks, and is seen as the industry's key spokesman.

Saeki, who is often consulted by the government on policy matters, is the first Sanwa Bank president to be appointed federation chairman. His appointment comes at a crucial time, when the government's "big Bank" financial reforms are taking shape.

Saeki has been a strong advocate of further deregulation in the banking industry and recently warned that if Japanese banks continue to act high-handedly, "their customers will desert them."

He joined Sanwa Bank immediately after graduating from Tokyo University in 1959. Now 63, he assumed the presidency in 1994 at the age of 59. In his long career with Sanwa, Saeki gained a reputation as a tough negotiator, particularly in dealing with the bank's financially troubled affiliates. Under his leadership, Sanwa Bank has made progress in clearing its nonperforming debt and expanded into investment banking and international operations.

Gwen Robinson, Tokyo

Duke Chapman to join ABN AMRO

Finance has never been a retiring business in Chicago, particularly if one looks at the records of the city's chief executives. When Alger (Duke) Chapman retired as chairman of the Chicago Board Options Exchange in March, no one expected him to repair to the golf course full-time.

He has now been named vice chairman of ABN AMRO Chicago Corporation, and has taken on responsibilities for building a cohesive retail banking operation for the largest foreign bank in the United States.

The Netherlands-based bank has been on an acquisitions binge during the past two years, and Chapman will have a considerable task standardising the delivery of personal financial services across the group's diverse holdings.

The 65-year-old Chapman is an experienced change master. He had been chief executive of the CBOE less than a year when the great stock market crash of October 19, 1987 left the options exchange – the world's largest – deeply wounded. It took years of careful work to rebuild investor confidence before the equity market's volumes began to rebound.

Chapman is recognised for his diligent leadership in that repair. He was a founding member of the Options Industry Council, a consortium of US options exchanges formed after the crash to educate retail investors about the equities markets. He also successfully diversified the CBOE's product base to attract more institutional investors.

His exchange duties were a detour from a long career in the brokerage business. Prior to joining the CBOE he was vice chairman of American Express Bank in London, overseeing their private banking business in 41 countries.

He began working in financial services at Shearson in 1966 after a brief stint as a lawyer for the Securities and Exchange Commission.

At Shearson he quickly rose through the ranks to become president and chief Executive. When Shearson merged with American Express Chapman served as co-chairman of the merged entity, Shearson American Express.

Laurie Moore Chicago

New breed of managers at Fidelity

Last year, Fidelity, the world's largest fund manager, was forced into personnel changes by a steady stream of departures by fund managers. But the last two weeks have seen a series of radical changes of the company's own making.

In the process, it has created several new job titles, and shaken up its management style, which has traditionally revolved around recruiting brilliant young fund managers and leaving them alone to perform. The net result, it seems, has been to hand the company over to professional managers, rather than to people whose skills lie in investment, and to secure a succession to Ned Johnson, its 66-year-old president.

The first fall of the dominoes came two weeks ago with the move of Gary Burkhead, the 55-year-old chief executive of Fidelity Management & Research, investment adviser to Fidelity's mutual funds, who was moved to a newly created position as president of the company's institutional group.

Fidelity said it wanted to focus more on institutional and retirement business. Most analysts assumed that the main reason for the move was to ease Burkhead out of his position at FMR.

His replacement, Robert Pozen, is a lawyer by training and not a fund manager. He is expected to work on enforcing discipline among the fund managers. Last week brought fresh evidence of this, when he created three new "associate directors" to oversee mutual funds. One of them is Abigail Johnson, daughter of Ned. She will co-ordinate specialised growth and capital appreciation funds, the core of Fidelity's business.

What does it all mean? Fidelity has finally accepted that it has outgrown a management structure adopted when it was a much smaller outfit. And, despite denials and disavowals it seems that Abigail Johnson is being groomed to succeed her father.

John Authers, New York

ON THE MOVE

■ Paolo Mieli, editor of Italy's best-selling daily Corriere della Sera, has been appointed managing editor of the RCS publishing group, which owns Corriere. The promotion of Mieli, aged 48, follows five years as editor, during which time his paper overtook rival La Repubblica to regain its place as Italy's most authoritative and profitable all-round daily. His innovations at Corriere included pioneering a successful weekly woman's magazine. His move follows a change of identity for RCS's traditional owner, Gemina – controlled by the Agnelli family and Mediobanca – which has merged with the Marzotto textile group. Mieli was previously editor of the Agnelli's Turin-based La Stampa.

■ Robert Cunningham, executive vice-president of sales and marketing at SWIFT TRANSPORTATION has resigned. Swift is the holding company for Swift Transportation, a truckload carrier headquartered in Phoenix, US. It is the fourth largest publicly-held national truckload carrier in the US.

■ John Phillips, former Reserve Bank of Australia deputy-governor has been appointed chairman of the Australian government's Foreign investment review board. Phillips, who is appointed for a five-year term, replaces Ken Stone, who has been acting board chairman since October 1992. Stone will continue as a board member.

■ SNYDER OIL CORPORATION has appointed William Hargett, 47, as president, chief operating officer and a director of the company. He was previously president and a director of Greenhill Petroleum Corp. John Snyder will resign from his post as interim president, but will continue as chief executive and chairman. He was appointed interim president during the search for a president after Thomas Edelman resigned to pursue other opportunities. Snyder Oil, Fort Worth, produces, develops, acquires and explores for domestic oil and gas properties.

■ UNIGLOBE TRAVEL ONLINE has appointed Raymon Townsend to senior vice president global sales & marketing. UTO, is the publicly traded subsidiary of Uniglobe Travel (international), which is the world's largest retail travel franchise company and is headquartered in Vancouver.

■ Pieter van der Wal, 57, former chairman of the board of management of Grundig, has been appointed regional executive Asia Pacific for PHILIPS ELECTRONICS. The country managers in the region will report to Van der Wal in Singapore.

■ The AUSTRALIAN WHEAT BOARD has appointed Murray Rogers, executive chairman of Kellogg Australia, a unit of Kellogg, as its new managing director. He will replace former AWB managing director John Lawrenson, who has been with the board for seven years. Rogers will lead the AWB through a major period of change, which will involve a government competition policy review in 1999. The main focus of the review will be whether the AWB is allowed to retain its successful monopoly of Australian wheat export sales.

■ NATIONAL AUSTRALIA BANK has appointed Wayne Rees as chief operating officer of its Michigan National Bank unit in the US. He was previously head of NAB's premier financial services division based in Sydney.

■ NATWEST MARKETS has appointed Gordon McCulloch to head its European equity derivative and programme trading operations. He joins from Morgan Stanley where he has been executive director and head of European equity derivative trading.

■ Richard Chan, managing director of WAH TAK FUNG HOLDINGS has resigned. He will be replaced by David Chu. He is already an executive director at the commercial property development and investment company.

■ AEGON's Dutch investment unit Beleggingen Nederland has appointed John Wilkinson head of its equities department. He has been portfolio manager at PanAngora Management in London for the past eight years.

■ PAINEWEBBER INCORPORATED has appointed Michael O'Hanlon to head the company's London-based international fixed income business. Alison Cottrell will become chief international economist, the position previously held by O'Hanlon.

■ RHONE-POULENC chairman Jean-Rene Fourtou, 58, and Jean-Dominique Comolli, 49, chairman of Seita join Pernod Ricard's board of directors. The shareholders of the company will be asked to approve their appointment at the Pernod-Ricard agm today.

■ PRICE WATERHOUSE has appointed Albert Macchioni to its corporate finance group as a managing director, high technology sector, resident in the New York Office.

■ Pierre Durand joins NATWEST MARKETS as a managing director and head of emerging markets trading and research for its global financial markets division. He will take up his New York-based position in May. Prior to joining NatWest Markets, Durand worked at Donaldson Luftkin & Jenrette.

■ NOVELL, the world's leading networking company, has appointed Roland Richter as the new head of Novell in Europe. He will become vice-president, Novell Europe, Middle East and Africa.

■ Andrew Cova has been appointed by SUN CHEMICAL as senior vice-president, responsible for all of Sun Chemical's printing ink operations in Europe.

■ Alberto Ciarniello of Telecom Italia Mobile, has been appointed chairman of the ERMES Memorandum of Understanding Steering Group. He takes over from Bob Rogers of Infomobile, France. Ciarniello currently works within the network engineering department of Telecom Italia Mobile.

■ Ian Stuart becomes president of MEAD JOHNSON NUTRITIONALS. Mead Johnson Nutritionals, a division of Bristol-Myers Squibb, is a world leader in infant formulas, medical nutritionals and consumer nutritional products.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

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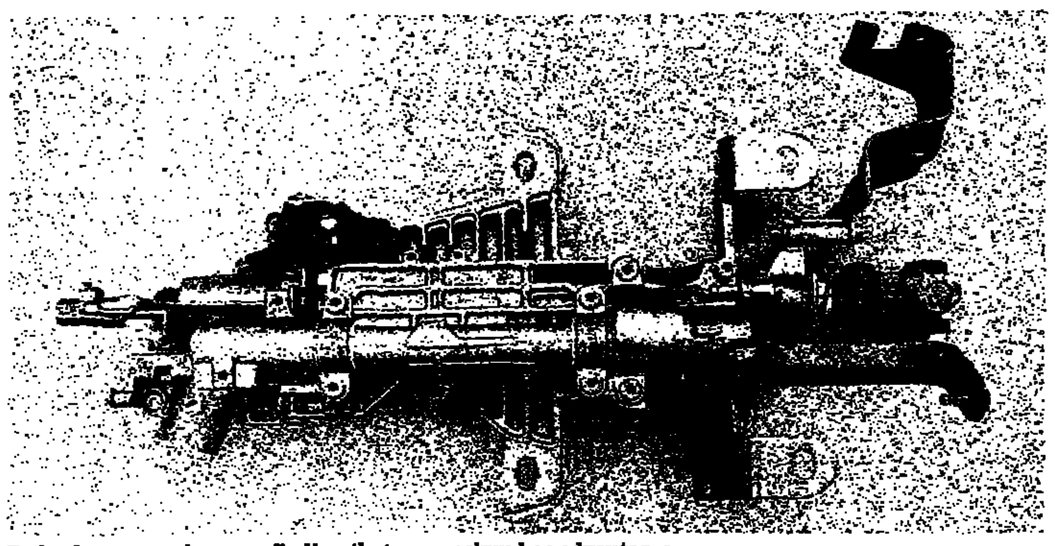

Body shop: carmakers are finding that magnesium has advantages

No added burden

Carmakers around the world are increasingly focusing on magnesium, says Anna Kochan

In their search to make cars lighter and reduce fuel consumption and exhaust emissions, carmakers around the world are suddenly converging on magnesium.

Although small quantities of magnesium alloy have been widely used in cars for many years, interest in this lightweight and very strong material is starting to increase sharply.

Dwain Magers, director of market development at Hydro Magnesium, part of Norway's Norsk Hydro, predicts that worldwide demand for magnesium diecastings will rise from 72,300 tons last year to more than 200,000 tons by 2005. "A growth rate of more than 15 per cent per year is expected well into the next century," he says.

New vehicles show how magnesium is increasingly being used to replace steel, aluminium and sometimes plastic. The new Passat B5 from Volkswagen, for example, features a magnesium gearbox casing, giving a 4.5kg weight saving.

However, the main evidence that magnesium is top priority for carmakers is the number of deals that companies such as Volkswagen, Ford, General Motors and Toyota are involved in with magnesium producers.

Volkswagen was the first to commit itself. It has gone into partnership with Israel's Dead Sea Works and owns 35 per cent of a production facility that the two companies have set up in a joint venture, Dead Sea Magnesium. The first batch of magnesium alloy from the venture is due to be shipped later this year.

Ford, meanwhile, has signed a multi-billion dollar contract with the Australian Magnesium Corporation.

Says Carols Mazzorin, vice-president of purchasing for Ford Automotive Operations: "This will allow our engineering community to leapfrog the competition by moving away from designs that call for small amounts of magnesium and aluminium to designs that call for much larger amounts of magnesium."

Magnesium's big advantage is its weight: its mechanical properties mean that it can even provide weight gains over plastic.

Despite the benefits, applications of magnesium as an engineering material have been slow to take off. One reason is the material's poor reputation for being highly inflammable and prone to corrosion – real difficulties for which real solutions have now been found.

"The magnesium alloys used today are high-purity ones made in a closely controlled process. They have a corrosion resistance superior to the most common aluminium alloys," says John Kostuch, sales manager for Europe at Diemakers, the UK magnesium diecasting producer.

"While pure magnesium ignites easily when exposed to air," he adds, "the machining of magnesium alloy does not pose a fire risk as long as the appropriate cutting conditions are maintained. Cutting fluids, for example, must be used to keep the alloy below its melting temperature."

The second problem has been cost. Pound for pound, magnesium is more than twice the price of aluminium, its main competitor for weight-reduction projects.

However, switching to magnesium does not necessarily mean higher costs. The diecasting process which is used to produce the bulk of automotive magnesium components favours magnesium. Parts which are complex, thin-walled and accurate can be diecast from magnesium but not from aluminium.

This means automotive parts can be redesigned to ensure that, in spite of its higher price, magnesium does not incur additional costs when used to replace existing materials.

According to Magers, the instrument panel is an assembly for which magnesium is being increasingly used as a replacement for steel and plastic, materials which are cheaper than aluminium.

By redesigning the whole assembly so that diecast magnesium can be employed, the total weight can be reduced by at least 15 per cent and the number of individual components cut, he says. Using diecasting, it is possible to combine several components into one, parts can be snapped together and fewer fasteners are needed in assembly.

The economies that can be gained by handling fewer parts and reducing assembly operations are likely to outweigh the additional cost.

Between now and 2000, Magers expects to see most growth in the use of magnesium diecastings for parts such as cylinder head covers, intake manifolds, steering columns, instrument panels and seats.

In the next century, further applications are likely to be found for magnesium engine hoods, engine blocks, oil pans, grill reinforcements, wheels, roof panels, rear deck lids and structural supports, he adds.

Meanwhile, research into magnesium continues. A three-year program began this year in Germany to further develop and optimise magnesium alloy products and processes. It is supported by the German government and all the main German carmakers.

Friedrich Klein, manager of the programme and a professor at Fachhochschule Aalen, a technical university near Stuttgart, hopes the project will lead to cheaper magnesium diecastings. "No diecasting machine designed specifically for magnesium alloys is currently available on the market," he says. "Diecasters have to adapt equipment originally intended for aluminium or zinc. We plan to design a machine which is optimised for magnesium alloys. In this way, the cost of castings could be cut by as much as 20 per cent."

Israel's Dead Sea Magnesium is also launching a research activity. It is setting up the Magnesium Research Institute at the nearby Ben Gurion University in Beersheva. This will focus on the development of new alloys to extend the applications of magnesium, says Daniel Rosing, DSM's vice-president for marketing.

Viewpoint · Dominic Hogg

Feed me with the evidence of safety

Policymakers tend to err on the opposite side of caution in awarding their consent for the introduction of new technologies and techniques.

The benefits of technology were assumed to be greater than the risks – where these were considered at all – involved with their use. Today, the negative impacts of new technologies are the subject of increasing scrutiny. Most recently, genetic engineering has fallen under this spotlight.

Henry Miller's article (Technology page, April 22) on the labelling of genetically engineered foods repeatedly suggests the existence of a consensus regarding the "exemplary safety" of genetically engineered foods. This is a misrepresentation and undermines the credibility of the argument that he seeks to advance.

The move to put genetically engineered foods in supermarkets takes place against a background of some anxiety among scientists, not to mention consumer groups. If the safety of these foods is exemplary, where are these tried and tested exemplars? Miller makes the classic mistake of equating lack of evidence of harm as evidence of safety.

It is unfortunate that those who seek to prevent the labelling of genetically engineered foods refuse to accept that there could be legitimate reasons for wanting to do so. The stubbornness of their position is founded upon an opinion that the risks associated with such foods are no different to those associated with the products of hybridisation and wide crosses, which can be achieved through traditional plant breeding techniques). They also appeal to the accuracy with which organisms can be engineered using these new techniques.

But neither argument holds water. Regarding equivalence, genetic engineering makes possible some things that cannot be done through traditional methods. If it did not, why would genetic engineering be so novel? It enables crossing of species barriers. The same gene can function quite differently depending on the genetic background in which it is inserted, so the crossing of these barriers is significant.

The accuracy argument is overplayed. Those using gene transfer techniques do not know where DNA fragments will end up, nor can they be sure they will be expressed in the target organism. A way of checking for expression is to track the DNA with antibiotic-resistant marker genes, the prevalence of which in genetically engineered foods is a significant reason for concern regarding food safety.

One-sided commentaries over-simplify the situation faced by policymakers in situations where consensus, far from being omnipresent, is difficult to find. Policymakers face a difficult task, but surely prudence is called for. Statesmen and stateswomen will recognise the relevance of uncertainty.

I shall stick to non-modified foods since I perceive there to be some risk in not doing so

What will be lost in telling people that cans of tomatoes are the product of gene-splicing, which offer advantages for processors? According to Miller, the costs of processed foods will increase through the cost of labelling. But if only genetically modified foods are required to be labelled, this would not increase the cost of those processed foods produced without genetic engineering. Labelling, instead, could tilt the financial balance away from genetically engineered foods, causing research efforts to shift towards more traditional means of crop improvement – where genetic techniques have an important support role to play.

Those involved in agrofood biotechnology have assumed that institutional structures would support the industry, even when the companies concerned became fully aware of public concern over such foods – not least because some of their own scientists are also concerned.

Heaven forbid, they may have thought, that a money-spinning innovation using cutting-edge science should not get used in these days where technological leadership and competitiveness are perceived as one and the same. But this is the risk a company should have to run if it were to invest in a new technology surrounded by scientific and regulatory uncertainty.

I shall stick to non-modified foods since I perceive there to be an element of risk in not doing so. Some scientists will call me irrational, and claim the risk associated with such foods is smaller than that of my being knocked down every time I cross the road. I have a choice as to whether I cross the road. Without labelling, I cannot choose whether or not to eat genetically engineered foods, yet I have to eat.

In the meantime, I should like the supporters of genetically modified foods to furnish me with empirical evidence of their safety – by supporting a labelling scheme, and consuming such foods themselves.

Those, like me, who are more cautious, need not, and we will then have created a sort of controlled experiment where I can look at the Henry Millers of the world and modify – or not – my decision on the basis of empirical observation. But for now, I shall seek to minimise the risks which I perceive are involved in consuming genetically modified food.

The author is completing Ph.D research at Cambridge University on the genetics supply industry and is a consultant with Birmingham-based Ecotec Research and Consulting.

Growing up in public

Lynn MacRitchie reviews the work of Tracey Emin and Gillian Wearing

Girl talk is everywhere now, up front, in your face and often downright dirty. It is the language of the Spice Girls, of giggly late night TV shows and now the art world. For Tracey Emin is the art world's very own Spice Girl: outspoken, frank, funny and just a little unnerving.

Her show at the South London Gallery contains work in many media – drawings, prints, sewn pieces, photographs, installations – but, appropriately, the most compelling items are the video tapes. In these the artist, with a little help from her Mum and her twin brother Paul, tells the story of her troubled adolescence, growing up in Margate, leaving school at 13, the age at which she was also "broken into" – Margate slang for being raped. Then there was lots of sex, mostly with older men, and dancing and drinking. Emin was – is – a good dancer. But when she entered a dance contest, all the men she had had sex with gathered round, chanting "Slag, slag, slag ..." until she ran weeping from the hall.

The contest had offered a means of escape, of getting to London, to a new life. She got there eventually, of course, and now she has taped herself dancing triumphantly, smiling, spinning round and round, naming her tormentors. "Here's one for you Shane, Eddy, Richard ..." the list of names goes on and on.

Emin is nothing if not a survivor, but the abuse – for this is abuse we are hearing about, no matter how pluckily borne – has left its mark. Now in her mid-30s, her work is still all about need – the need for love, needing the certainty of visceral emotion. It seems that, for her, feelings have to be extreme to be real. Her insistence on empathy leaves little space for the viewer to stand back from their creator, who meanwhile, quite literally, exposes more and more of herself.

Her works are made for an audience. For "Exorcism of the last painting I ever made" she lived for days in a room built in an art gallery in Stockholm, stripped naked, making paintings in different styles: viewers could watch her only through a fish eye lens set in the door.

At art school, first Maidstone, then the Royal College, she tried to paint, but had always felt that she failed: at the RCA, she took all her canvases outside and chopped them into pieces. "Exorcism" is her revenge, art making itself turned into a peep show.

Over at the Chisenhale Gallery, Emin's contemporary, Gillian Wearing, also works with themes of adolescent angst. In "10-16", a new video work commissioned by the gallery, she has taped the tales of a group of adolescents who were allowed to tell her whatever was on their minds. These are then presented as if spoken by adult actors, in little scenarios staged by Wearing.

The taped, young voices emerge from adult bodies, full of violence and anger, their lack of restraint shocking when contrasted with the older, more cautious faces from which the words now sound. "I do feel anxious about my mother – and I'd love to kill her very much," says a naked dwarf lying in a bath. Why naked? Why a dwarf? Wearing explains that the tale of the boy's hatred for his mother's lesbian lover, refered to throughout as "The White Swan", was so strange it needed to be retold in a surreal way.

The dwarf, a professional actor, had done a lot of work with Walt Disney: it seemed to fit. And it does, especially when he concludes the tale by recounting how to murder someone with green peas, a modern version of the green poisoned apple in Snow White (you freeze them and thaw them a few times, heat into soup, serve and "They don't know what's killed them.")

Themes of adolescent angst: 'Troll' by Tracey Emin

Also shocking are the two ladies sitting enjoying their sandwiches on the grass. The one in the white blouse opens her mouth and observes, in the voice of an 11-year-old girl, "Its important to be tough. Only every time I hit people, I think, why did I do that?" She carries on to wonder why, having punched and kicked her way through school, "Nobody seems to like me very much."

This genuine turmoil – other tales explore the horrors of being overweight, an uncertain sexuality, the joy of drinking, worries about animals being "extincted" and concern about abortions – reveal a world of fierce emotions not yet trammelled in adult ways of restraint. The words tumble out, crude, jumbled but unmistakably authentic, the raw feelings painfully real.

Both Emin and Wearing have turned to adolescence to find an authenticity the grown up world is felt to lack. Wearing's formal device of putting young words in old mouths makes the powerful point that these stoic adults have somehow grown around those seething emotions, which are now locked away inside them, no longer expressed but still there.

Emin's dependence on her own self-exposure is more dangerous: while her powerful physical presence, and the authenticity of her recalled emotions – she often cries or laughs uproariously in the video tapes – make her tale telling compulsive, she still seems to be searching for a formal medium removed from herself that is strong enough to carry the weight of such powerful feelings. Her drawn and sewn pieces, although immediate and appealing, do not quite have the substance she will need fully to sustain her while, as all artists must, she continues to grow up in public.

Tracey Emin: *I need art like I need God*, April 16 - May 18; South London Gallery, 65, Peckham Road, London, SE5. *10-16*, Gillian Wearing, 30 April 30 - June 1. Chisenhale Gallery, 64, Chisenhale Road, London E3.

Theatre/**David Murray**

All in the best possible taste

At first thought, Eric Rohmer's delicate little film dramas would seem unlikely models for a Strindberg staging. What about the seething hysteria, the feral intimacies, the ghastly confrontations?

Yet Jean-Luc Bondy's production of *Playing with Fire* – which visited the Nottingham Playhouse last week as part of a world tour – is the epitome of *bon chic, bon goût*, entirely in Rohmer's manner. And, in its soft-spoken way, it transmits Strindberg's obsessions very well.

Like Strindberg's better known *Creditors*, *Playing with Fire* is basically a three-hander, not much more than an hour long. The hapless couple Knut and Kerstin and interloper Axel play out their desperations, in Richard Peduzzi's beautiful designs, outside an artfully plain beach cottage, very much *en plein air*, and in simple, stylish summer gear.

A constant murmur of surf just offstage suggests not so much the Baltic as the French Atlantic coast – and occasionally drowns out the dialogue, as the voices are hardly ever raised.

The play is such close-to-the-bone autobiography that it had to wait years to be staged. One or two of the people represented in it threatened libel suits.

Axel (Thierry Fortineau, ultra-suave and civil) has risked entanglement with Kerstin before, as well he might: she is played by the delectable Emmanuelle Béart.

She is less elfin than in *Manon des Sources* but even more tantalising. Then, he declined to join them in a *ménage à trois*. Now he has come on holiday with them, and dangerous games are once more in play.

Knut (Laurent Grévill, whose cheekbones and fair receding hair enhance his plausibly Nordic sulk) is already expecting the worst – nay, almost *willing* it, as Strindberg characters are irresistibly wont to do. His fears are well founded, because self-guaranteeing.

Most of the action consists of fraught duologues, in which confessional declarations have the force of weapons. The French translation is blessedly unhampered by the donnish, hypergrammatical tone of "standard" English versions.

Here, the dreadful things that get said are at least said naturally, and quietly and intensely. Passing interruptions by Mother, Father and a distraught servant are treated as almost farcical breaks, releasing the tension only to let it build again.

At the end, when one member of the trio has finally decamped, everybody else is tucking into a jolly fish supper on the patio, with just a hint of summer lightning still in the air. Dominique Brugière's shifty, aqueous lighting is an asset throughout.

It must be said that this production leaves no room for blood on the floor. There is a considerable erotic charge here and there, but we do not really expect anybody to get badly hurt. The whole situation looks too civilised and pretty for that.

The most dramatic junctures draw friendly chuckles, partly because most of the audience are relying on the surtitles. The surtitles inevitably distance things, but we were more than adequately gripped, and, as a Rohmerian experience, it was aesthetically faultless.

A nice extraneous touch was lent to *Playing with Fire* by the presence of the Nottingham fire department outside.

The beach house on the set protruded over the footlights, making it impossible to close the safety curtain, so the firemen had to mount guard. But there was never much risk of a conflagration.

Tantalising: Emmanuelle Béart

Alastair Muir

Theatre/**Sarah Hemming**

Women in the dangerous grip of devotion

On the strengths of the two plays we have seen so far in London from Marina Carr, the young Irish playwright seems fascinated by women in the dangerous grip of devotion. Last year, the Royal Court staged her *Portia Coughlan*, a wild and powerful play about a woman driven mad with grief at the loss of her drowned twin brother, so devoted to him that she finally decides to join him in the river. In *The Mai*, Carr's earlier play now given its British premiere at the Tricycle in Kilburn, the central character is also loyal to what might be described as a fault, and again she is drawn towards a watery death – but this time the man that has her obsessed is her errant husband.

The Mai is 40-year-old schoolteacher, mother of four, oldest sister of three. When we meet her she is rejoicing in the return of Robert, her cello-playing husband who has been AWOL for five years (we never find out why or where). In that time, we learn, she has built their new home. The entire play takes place in the living room of this new house with its commanding view of the lake and we gather that she had it built to entice him home.

Quite why she should bother is a mystery to any outsider: her husband, as played by Robert Gwilym, is a shifty type with terrible taste in clothes and a very modest talent, whose reaction to the Mai's devotion is to run away with the nearest married woman he can find. But this, one suspects, is the point. Carr seems interested in anatomising the catastrophically different expectations of men and women and their different experiences of disillusionment. Around the Mai and Robert, Carr arranges a squadron of female relatives, all of whom are struggling to accommodate their unfulfilled hopes.

There is Grandma Fraochlan, 100 years old, still clinging to her idealised memory of her "nine fingered fisherman" as tightly as she grips the oar that she always carries with her. There are her two interfering daughters, widow and spinster, who come round to squabble, and her three granddaughters: the miserably married Connie, the permanently roaming Beck and the Mai. There is also great granddaughter Millie, who hangs around on stage as a teenager, occasionally stepping out of the action to comment on it from the vantage point of the future.

Through these characters Carr debates ideas about love, marriage and motherhood (according to Grandma Fraochlan there are two types of parents: those that put the children first and those that put the lover first), about romantic hopes and about the long arm of the past. And while all this is going on, the Mai slowly but surely steams towards her own doom.

Carr is a funny and observant playwright. Her collection of motley relatives have some great exchanges and the formidable, opium-smoking Grandma Fraochlan is a delightful creation, enjoyably played by Myra Carter. But while this is all absorbing, and wittily staged in Nicolas Kent's production, neither the writing nor the production suggests strongly enough the gathering momentum of tragedy. This is something one felt keenly in *Portia Coughlan*, together with the anguish of the central character. Here, even Judith Scott's striking portrayal of the Mai is not sufficient: although you see her light dimming before you, you never believe she is desperate enough to do anything final.

So it is that the play seems to come to a halt, rather than build to a climax. But Carr is clearly a playwright of promise, and since her more recent work was so powerful, she is surely developing her own unique voice.

Continues at the Tricycle Theatre, London NW6 to May 31 (0171-328-1000).

INTERNATIONAL ARTS GUIDE

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● *Evgeny Koroliov: the pianist* performs works by Bach and Beethoven; May 9
Philharmonie Berlin – Grosser Saal & *Kammermusiksaal* Tel: 49-30-2614383
● Deutsches Symphonie-Orchester: with conductor Vladimir Ashkenazy and violinists Bernhard Hartog and Hans Maile in works by *Schubert and Brahms*; May 9
OPERA
Deutsche Oper Tel: 49-30-3438401
● Herzog Blaubarts *Burg*: by Bartók. Conducted by Jiri Kout, performed by Deutsche Oper and the Wiener Staatsoper. Soloists include Richard Cowan, Doris Soffel, Ivan Sardi and Karan Armstrong. The programme also includes a performance of *Erwartung* by Schoenberg; May 6
Staatsoper Unter den Linden Tel: 49-30-20354438
● Der Freischütz: by Weber. Conducted by Zubin Mehta, performed by the Staatsoper Unter den Linden. Soloists include Roman Trekel, Carola Höhn and Dorothea Röschmann; May 8

■ BRUSSELS

EXHIBITION
Musées royaux d'Art et d'Histoire – Tour japonaise et Pavillion chinois Tel: 32-2-7417211
● Samurai: display of decorated swords belonging to Samurai guards. The pieces are drawn from a number of collections, including those of Edmond Michotte and Jean-Ernest van den Broeck; to Sep 1

■ CHICAGO

EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Charles Rennie Mackintosh: billed as the most *comprehensive* show of Mackintosh's work ever mounted, this exhibition features over 200 objects, including architectural drawings, room settings, furniture, decorative arts, models, watercolours and *reconstructions* of interiors; to Jun 22

■ COPENHAGEN

DANCE
Det Kongelige Teater – The Royal Theatre Tel: 45-33 69 69 69
● A Midsummer Night's Dream: choreographed by John Neumeier to music by Mendelssohn, performed by the Royal Danish *Ballet; May 7*

■ DUBLIN

EXHIBITION
Irish Museum of Modern Art Tel: 353-1-6718666
● The Glen Dimplex Artists Award Exhibition 1997: display featuring works by the six artists shortlisted for this year's award: the sculptors Stephen Craig and *Dorothy Cross, painter Willie* McKeown, multi-media artist Maurice O'Connell, photographer Paul Seawright and the *partnership of Phelan and* McLoughlin who work with time-based art; to Jul 13

■ FORT WORTH

EXHIBITION
Kimbell Art Museum Tel: 1-817-332-8451
● Georges de la Tour and His World: exhibition bringing together thirty-two paintings by the 17th century French painter and ten works by leading contemporaries, including Caravaggio, Jacques Bellange, *Simon Vouet and* Hendrick ter Brugghen. La Tour is best remembered for his realistic portrayal of scenes from everyday life and for the dramatic themes of his religious works; to May 11

■ LONDON

CONCERT
Royal Festival Hall Tel: 44-171-9604242
● Orchestra of the Age of Enlightenment: with conductor Heinrich Schiff, soprano Judith Howarth, alto Cartherine *Wyn-Rogers, tenor James Oxley*, bass Stephen Gadd and the Brighton Festival Chorus in works by Beethoven; May 7

EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● Variations on a Theme: exhibition celebrating Britain's musical heritage of the past 150 years, including some rarely seen *images from the Gallery's* archives. Composers featured include Coleridge Taylor, Britten and Rawsthorne; to May 26

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-6222
● Ellsworth Kelly: A Retrospective: a complete survey of the artists paintings and sculptures, spanning five decades of work, beginning in the late 1940s and including 80 paintings, 20 sculptures and 100 works on paper and photographs; to May 18

■ MADRID

FESTIVAL
Festival Mozart de Madrid Tel: 34-1-3567622
● This year's festival highlights include performances by the Orchestra of the Age of Enlightenment, conducted by Sir Simon Rattle. Opening the festival is the Coro Universitario de Baleares, conducted by Trevor Pinnock performing works by Bach and Mozart; from May 9 to Jun 30

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Indian Court Painting: 16th-19th Century: exhibition of paintings drawn primarily from the Museum's own collection tracing the various traditions of Indian painting over four centuries. The display is one of three this year at the Metropolitan to mark the 50th anniversary of India's independence; to Jul 6

■ PARIS

EXHIBITION
Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 67 40 00
● Les Annees 30 en Europe: exhibition examining the art of the 1930s. Artists with work on display include Liger, Picasso, Mirs, Dali, Kandinsky, Klee, Dix and Sironi; to May 25

■ THE HAGUE

CONCERT
Dr Anton Philipszaal Tel: 31-70-3607927
● Residentie Orkest: with conductor Christopher Hogwood and pianist Pascal Rogé in works by Mozart and Brahms. Part of the Brahms Festival '97; May 9

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Philharmoniker: with conductor Riccardo Muti, soprano Ruth Ziesak, alto Vesselina *Kasarova, tenor Michael Schade* and the Chor des Mitteldeutschen Rundfunks in works by Haydn and Schubert; May 8
Musikverein Tel: 43-1-5058681
● NTO-Tonkunstlerorchester: with conductor Franz Gerstacker and soprano Silvana Dussmann in works by Brahms, Schubert and Mendelssohn; May 8

■ WASHINGTON

EXHIBITION
National Gallery of Art Tel: 1-202-7374215
● *Picasso: The Early Years,* 1892-1906: exhibition revealing Picasso's achievements prior to the advent of Cubism. Beginning with Picasso's formative years, this selection of approximately 125 objects traces the artist's close contact with Catalan modernism in turn-of-the-century Barcelona and his subsequent emergence in Paris. With a close examination of Picasso's Blue and Rose periods, the exhibition culminates with his monumental figure pictures of 1906, which *were influenced by ancient Iberian* sculpture. In addition to paintings, drawings and pastels, the display includes sculptures, prints and smaller works such as the artist's caricatures; to Jul 27

Listing selected and edited by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

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European Money Wheel

18.00
Financial Times Business Tonight

Martin Wolf

Global opportunities

Rather than damaging wages and throwing people out of work in advanced countries, globalisation has been a force for prosperity in much of the world

Globalisation is the great economic event of our era. It defines what governments can – and should – do. It explains what is happening to the world economy. But what is globalisation? And why is it so desirable?

In a splendid discussion in its latest World Economic Outlook, the IMF describes it as "the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology".

Between 1930 and 1990, average revenue per mile in air transport fell from 68 US cents to 11 cents, in 1990 dollars; the cost of a three-minute telephone call between New York and London fell from $244.65 to $3.32; and, between 1960 and 1990, the cost of a unit of computing power fell by more than 99 per cent. Improved communications have led to an organisational innovation – the multinational company, a superb mechanism for transferring technology across frontiers.

Technology makes globalisation feasible. Liberalisation makes it happen. Liberalisation there has been: between 1970 and 1997, for example, the number of countries that eliminated exchange controls affecting imports of goods and services jumped from 35 to 137.

True, in certain respects, the world economy is less integrated than before the first world war. The UK's capital outflow, for example, was 9 per cent of gross domestic product at its pre-1914 peak, twice as big a share of GDP as outflows from Germany and Japan in the 1980s. The world then effectively operated with a single currency – gold. Likewise, in the early part of the century, the number of workers moving across frontiers was greater than now.

Yet, on balance, globalisation has gone further than ever before. Global ratios of exports to output returned to 1913 levels by 1970, but have since risen from 12 to 17 per cent; financial markets are highly integrated; technology is being transferred at unprecedented rates; and governments are increasingly bound by multilateral agreements.

Why have so many governments chosen – or been forced – to open up to the world economy? Lessons of experience is the answer. States may imprison their citizens, but they cannot force those imprisoned to show the initiative of free people.

Contrast west and east Germany, south and north Korea or Taiwan and Maoist China. In every case, the second of these pairs chose – or was forced to choose – isolation, while the first adopted international economic integration. Over some 40 years, ratios of real incomes per head became three to one or more.

These are the closest to controlled experiments that economic history affords. Their results explain why China liberalised, the Soviet empire disappeared, communism collapsed and Mr Tony Blair calls his party "New Labour".

Those who believe the liberalisation of today is incomprehensible or unreasonable are purblind. Yet many do. They have three motivations: hatred of markets; fear of foreigners; and concerns about wages, jobs and economic activity. The first two attitudes are pathological. The last is at least rational.

In advanced economies over the past two decades there have been big increases in wage differences between the skilled and unskilled, or growth in unemployment of the unskilled, or both. This has happened even though the relative supply of skilled workers has risen. Many blame this development on rising competition from low-wage countries. This is indeed conceivable. The evidence suggests, however, that it is largely untrue.

The theory is simple. Imports from countries that have a relative abundance of unskilled labour should lower the prices of products that use such labour relatively intensely. This will shift production in advanced countries towards products that are intensive in skilled labour, increasing demand for skilled labour and lowering demand for unskilled labour. This shift will be manifested either in a growing wage gap between skilled and unskilled workers or in rising unemployment of the latter.

The theory is elegant. But empirical evidence suggests the relative prices of goods produced by unskilled labour have not fallen, probably because imports from countries like China have replaced imports from countries like South Korea, rather than production in advanced countries. Moreover, merchandise imports from developing countries equal only 3-8 per cent of total output in advanced economies. In an IMF working paper, the Effect of Globalisation on Wages in Advanced Economies, Mr Matthew Slaughter of Dartmouth College and Mr Phillip Swagel of the IMF conclude: "increased trade accounts for only about 10 to 20 per cent of the changes in wages and income distribution in the advanced economies".

In every advanced economy, the share of the labour force employed in manufacturing has been falling: in the European Union it has dropped from above 30 per cent in 1970 to 20 per cent in 1994; in the US the share has fallen from 28 per cent in 1965 to 16 per cent in 1994. These falls parallel declines in the share of manufacturing in GDP at current prices, suggesting that the reason for the diminished role of manufacturing in employment is the failure of output to grow.

Appearances are misleading. At constant prices there has been very little decline in the share of manufacturing in total output. The faster rate of growth of productivity in manufacturing than in services is, instead, leading to a reduction of relative prices of manufactured output, as well as of employment in manufacturing per unit of output.

Thus, between 1971 and 1994, output of manufacturing rose at 2.5 per cent a year in the advanced economies, but output per person at 3.1 per cent. For services, the figures were 3.3 and 1.1 per cent respectively. The share of employment in manufacturing was bound to decline, as it has long done in agriculture.

The damage that globalisation has been alleged to cause to some people in advanced countries is largely mythical. What is not mythical, however, has been the opportunity offered by economic integration to poor countries.

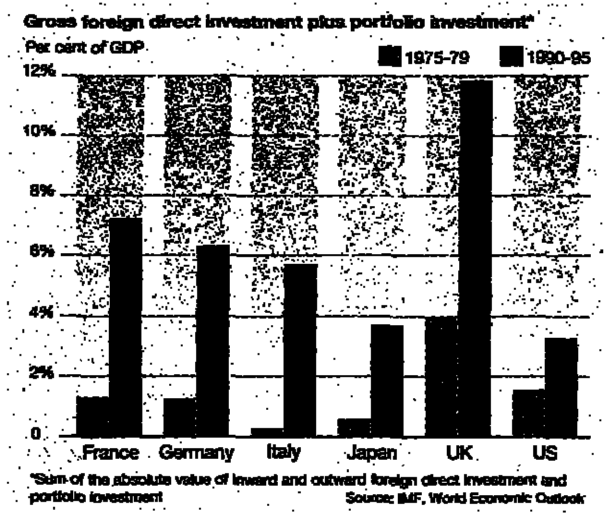
Between 1965 and 1995, for example, the real incomes per head of the Asian newly industrialised economies rose seven times, while their share in world trade increased more than fourfold. Similarly, China's period of rapid development can be dated to its decisions to liberalise agriculture and open up to the world economy. Where trade led, capital flows followed: in 1996 capital flows to China were larger than to all developing countries combined in 1989.

Globalisation was not inevitable. Nor does it merely reflect the march of technology. It marks the successful worldwide spread of the economic liberalisation that began nearly 50 years ago in western Europe with the Marshall Plan. It is now bringing unprecedented opportunities to billions of people throughout the world.

Inevitably, those who fear markets and foreigners clamour against it. Their voices must be ignored. What is needed, instead, is a careful consideration of what governments can – and should – do when the market is global, but their sway is merely local. That is the subject of next week's column.

Growing closer: capital flows

Gross foreign direct investment plus portfolio investment*



*Sum of the absolute value of inward and outward foreign direct investment and portfolio investment

Source: IMF, World Economic Outlook

LETTERS TO THE EDITOR

Number One Southwark Bridge, London ...

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IMF duty to comment on Emu

From Mr Shailendra J. Anjaria.

Sir, Mr Peter Oppenheimer (Letters, May 2) seriously misunderstood International Monetary Fund officials' recent comments on the possible consequences of a delay in stage 3 of Emu. The IMF staff has argued that the conditions for a successful start of Emu are largely in place. There has been a remarkable reduction in both the level and the dispersion of inflation rates; a considerable reduction in the spreads for long-term interest rates; and significant progress in the fiscal area.

The IMF's World Economic Outlook released last month showed that, on the basis of policy measures already announced, nearly all European Union countries, except Greece, could meet the criteria laid down in the Maastricht Treaty.

Against this background, not only the IMF but also private forecasters believe that a delay in the start of stage 3 could entail substantial risks. The IMF staff, in pointing to the risk of turbulence in foreign exchange markets, is thus not being "alarmist".

As to the propriety of the comments, may I point out that this institution, including its head and staff, have the duty, as part of the IMF's surveillance function, to comment on the creation of Emu, which the recent meeting of its ministerial-level interim committee described as "one of the most important international monetary developments in the post Bretton Woods period". For the IMF to ignore this development would be an alarming lapse, indeed.

Shailendra J. Anjaria,
director,
external relations department,
International Monetary Fund,
Washington D.C. 20431, US

The telling lesson of a failed union

From Mr Charles Wyatt.

Sir, Throughout his campaign, Mr Tony Blair was reported as reading the Financial Times on numerous occasions. I trust that his promotion to prime minister will not interfere with this habit as an article appeared on his first morning as prime minister which should be pinned by his shaving mirror to read each day.

Christian Tyler ("From European Union – to empire", May 3/4) compared the Delian League of 478BC with the European Union of 1997. Dominated by Athens, a common currency was introduced when it was decreed, under pain of death, that the currency of all member states should be swapped for Attic currency. Weights and measures were harmonised and local laws changed to conform with a common line.

Seventeen years after formation of the league, Sparta woke up to the fact that it had been emasculated in the council chamber rather than on the battlefield. The Peloponnesian war followed, culminating in the defeat of Athens and dissolution of the Delian League.

Study of this precedent might help Mr Blair contradict the contention by the German philosopher, Georg Hegel, that "people and governments never have learnt anything from history, or acted on principles deduced from it".

Charles Wyatt,
Hurst House,
Wittersham,
Kent TN30 7EL, UK

From Mr Thomas Hackett.

Sir, Former Tory minister, Tim Renton, in his article "The torture of the minister in waiting" (May 3/4), tactfully omitted from his quotation from *Lycidas* Milton's advice in the immediately preceding lines. It was advice which his former colleagues often took too literally.

"Were it not better done
as others use,
"To sport with Amaryllis
in the Shade
"Or with the tables of
Naeara's hair . . ."

In learning from the past administration, will New Labour prefer this rather than "To scorn delights and live laborious days"?

Thomas Hackett,
8, rue des Sept-Fontaines,
L-2534 Luxembourg

Imaginative solution to aid world's poor

From Mr Stephen Chipchase.

Sir, When watching on TV a starving, dying child during a third world famine, I remember the reporter's comment: "Western help is on its way, but it is too little, too late for this child."

Writing off the debt of some of the world's poorest nations as odious, as proposed by the archbishop of Cape Town in his "Personal View" (April 28), is an imaginative, creative, practical and just solution which needs to be embraced and implemented with the same enthusiasm as Band Aid and Comic Relief.

Stephen Chipchase,
11 Harley Grove,
London E3 2AT, UK

Alice Rawsthorn on the European film industry's revival

Return of the blockbuster moviemakers

When the great and the good of the film industry take their seats at the opening night of the 50th Cannes festival tomorrow, they will see one of the most expensive films ever financed by a European company.

The Fifth Element, a futuristic thriller directed by Luc Besson and starring Bruce Willis, is the product of a $90m (£55.5m) investment by Gaumont. The French entertainment group backed it in the hope of breaking into the lucrative English-language blockbuster market.

Other European companies, including Canal Plus and Pathé of France, have stepped up their investment in English-language films. And PolyGram of the Netherlands has spent $800m over six years to establish a Los Angeles-based film subsidiary.

But past European efforts to challenge Hollywood in the global market have been clouded by catastrophe. Will things be different this time?

"If you look at the industry's history, the Americans have trounced the Europeans by being better organised and well funded," says Sir David Puttnam, the Oscar-winning British producer. "Is the situation likely to improve? Maybe."

In the past, the industry's problem was that Europe was so fragmented between different languages that most films were financially dependent on their domestic markets. Those markets have shrunk dramatically since the late 1950s as cinemas have closed. Admissions almost halved during the 1980s alone, falling by 500m to 620m in 1990, according to Dodona, the research consultancy.

It became increasingly difficult to produce profitable French, German or Italian language films. And the UK film industry, although blessed with the same language as Hollywood, was dogged by inadequate investment and – unlike France, Germany and the US – a dearth of state support. Production budgets shrank and talented film-makers fled to the US.

Several European companies were badly burnt in Hollywood, including PolyGram which withdrew after an unsuccessful foray there in the early 1980s. Goldcrest, once the UK's most successful production company, went bust. More recently Crédit Lyonnais, the French bank, incurred heavy losses from its brief stewardship of the MGM/UA studio, as did Canal Plus on its stake in Carolco, the independent US producer that collapsed two years ago.

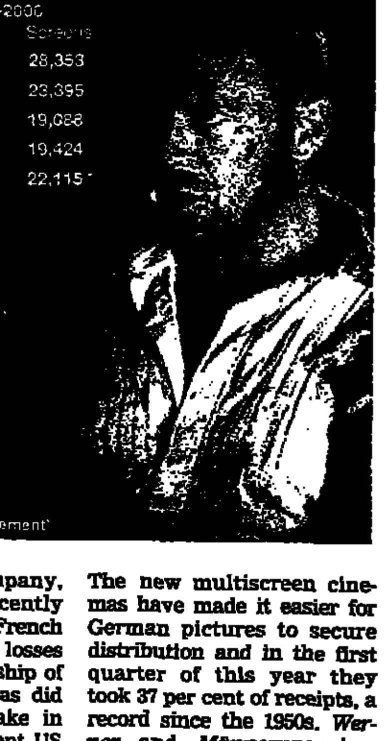
Flickering picture: European cinema market

1980-2000

	Admissions (m)	Screens
1980	1,077.6	28,353
1985	736.0	23,395
1990	620.2	19,088
1995	686.5	19,424
2000	919.2*	22,115*

*estimate

Source: Dodona Research



Bruce Willis in 'The Fifth Element'

Yet the European market has changed dramatically in the 1990s, largely because of the growth of multiplex cinemas. More than 1,000 screens have opened since 1990, bringing the total to 20,000, contributing to a 23 per cent increase in ticket sales to 765m last year. The UK and Germany, the most advanced multiplex markets, have two of the fastest expansion rates.

In the UK, admissions have doubled since 1985 when the first multiplex opened at Milton Keynes. This, coupled with the success of *Four Weddings And A Funeral* and *Trainspotting* which have grossed $250m and $75m worldwide respectively, has made investors more confident. British producers backed 114 pictures in 1996, the most for 15 years.

Germany has gained 700 screens since 1990, and admissions have risen by 40 per cent to 145m last year. The new multiscreen cinemas have made it easier for German pictures to secure distribution and in the first quarter of this year they took 37 per cent of receipts, a record since the 1950s. *Werner* and *Männerpension*, examples of the new genre of acerbic comedies, were among the country's top 10 films last year.

Multiplex construction is accelerating across Europe. Time Warner of the US and Australia's Village Roadshow plan to build 300 complexes over the next three years. UCI, a joint venture between Seagram and Viacom, the North American entertainment groups, has equally ambitious plans, as does Virgin.

Dodona expects 2,000 screens to open in Europe by the end of the decade, contributing to a 20 per cent increase in admissions to nearly 920m. Revenue from other sources, notably pay-TV and video retail, should show equally strong growth as such markets are under-developed in Europe compared with the US.

Hollywood studios are already basing more productions in Europe in the expectation that it will be one of the fastest growing areas of the global market in the late 1990s. Stanley Kubrick is in London shooting *Eyes Wide Shut*, a thriller starring Tom Cruise. George Lucas has started filming the next *Star Wars* movie on a disused Hertfordshire aerodrome.

European companies are also stepping up their investment, encouraged by the success of young film-makers such as the *Trainspotting* production trio and Til Schweiger, director of *Knockin' On Heaven's Door*, Germany's latest hit comedy. These relative newcomers tend to be more populist than their predecessors.

Meanwhile, the global audience is increasingly receptive to sophisticated "European" pictures. *The English Patient* has grossed more than $175m worldwide, buoyed by its Oscar triumph. Even *Kolya*, the Oscar-winning Czech film, has taken $4m in the US and topped the charts in the Czech Republic last year by grossing nearly twice as much as *Independence Day*.

In the UK, the ITV companies and BSkyB, the satellite television group, plan to invest in feature films, and Mr Richard Branson's Virgin group is considering doing so. Next week the Arts Council will award franchises to four film consortia, each entitled to receive up to £39m of National Lottery money over six years.

Canal Plus and Pathé recently opened London offices to oversee their investment in English-language pictures, and Gaumont intends to follow suit. Ufa, the German television company which made Fritz Lang's 1920s classics, is returning to film production and may diversify into the English-language market.

PolyGram is making progress in Hollywood. It recently sanctioned an investment of up to $340m to increase production capacity and establish a US distribution network. Mr Alain Lévy, president, says the loss-making film division "could, and I underline the word could" become profitable next year.

The film market is so volatile that PolyGram's hopes may yet be scuppered by a couple of expensive flops. But if it succeeds in bucking the Tinsel Town curse on European investors and Gaumont's gamble on *The Fifth Element* pays off, Europe could have a flourishing film industry again.

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday May 6 1997

C'est moi, Tony Blair

Suddenly, it seems, everyone in Europe wants to be Tony Blair. Italy's centre-left government – pro-European, business-friendly, struggling to keep its leftwing base loyal while pursuing fiscal virtue – has obvious reasons to welcome a kindred spirit. But centre-right governments in France and Germany have also hailed Mr Blair's success, even while their social democratic opponents are jostling to catch the rays of his reflected glory.

It may not last. But it has its amusing side, not least in France where the election campaign started yesterday. A cartoon in Le Monde shows president Jacques Chirac, his prime minister, Mr Alain Juppé, and the Socialist leader, Mr Lionel Jospin, all proclaiming "C'est moi, Tony Blair!"

According to opinion polls, the combined forces of the French left are now running neck and neck with the centre-right parties. That still leaves the latter odds-on to win: they have a single candidate in almost all constituencies, whereas socialists and communists are bound to shed some votes in the process of transferring them to each other on the second ballot.

It also seems unlikely that supporters of Mr Jean-Marie Le Pen's National Front, who will form the swing vote on the second ballot in many constituencies, would come down in favour of the left – especially as Mr Jospin is pledged to repeal the tough immigration and nationality laws passed by the right.

Unlikely, but not absolutely impossible. Mr Chirac's decision to intervene personally in the campaign tomorrow suggests that the pro-government forces may be getting rattled.

Naturally, Mr Jospin draws encouragement from the victory of the left across the channel. Mr Juppé and his colleagues have replied by pointing out that New Labour has moved well to the right of France's socialism. Indeed, according to the former finance minister Mr Alain Madelin, "importing even a quarter of Tony Blair's programme into France would be enough to cast us as the most diehard liberals".

That is an exaggeration, but the point is right. If Mr Jospin is no Blair, that is because Mr Chirac is no Thatcher. It is one thing for the left to come to terms with a free-market revolution after it has happened, quite another to expect it to endorse such a revolution even before the right dares to propose it.

Brown's first test

Mr Gordon Brown can no longer claim that he must open the books left by the Conservatives before deciding on his first Budget. He has to make up his mind what to do, instead.

As the UK's new Labour chancellor starts to go through the nation's finances with Treasury officials, there are not likely to be many surprises. In some respects, the figures look better than had been expected. The large hole in tax receipts which opened up a year ago seems to be filling. As a result, the public sector borrowing requirement for 1996-97 turned out to be £3.6bn lower than the £26.4bn forecast by Mr Kenneth Clarke, the former chancellor, in his November Budget.

Compared with the demands which Mr Brown will soon face from his colleagues in spending departments, that difference does not add up to much. But every little helps. Mr Clarke expected the PSBR for the current year to be £19bn: it now looks as if Mr Brown's baseline will be significantly lower – perhaps about £16bn, according to some City estimates.

At 2 per cent of GDP, this would put the UK on course for joining the European monetary union, perhaps in the second round. It would also be a move towards the new government's declared policy of borrowing no more than is needed for public investment, the so-called "golden rule".

Mr Brown faces several immediate difficulties, however. The first is that the public spending totals which he inherits and has pledged not to exceed look almost impossibly tight. They allow for no real growth at all up to 1998-99.

This is much less than the average growth rate of real public spending since 1979 of 2 per cent a year. Even if revenues look healthier, borrowing targets are highly vulnerable to overshoots in spending – especially under a government which has raised strong expectations for improvements in health and education.

Second, borrowing is too high for an economy well into the recovery phase. Under the golden rule, borrowing should probably be 1 per cent of GDP or less at this stage of the economic cycle. Under a European stability pact, it would need to be close to zero.

Third, the Bank of England will doubtless renew its warning against the dangers of inflationary pressure. The risk has been reduced for the time being by the continued rise of sterling. But the strong pound is already beginning to hit exports, and is likely to damage the balance of payments as well as the prospects for manufacturing.

The Bank had been urging a rise in interest rates to curb the growth of domestic demand. With luck, an increase in taxes might have a similar effect, while easing the pressure on interest rates and – perhaps – on sterling.

A new government pledged to reduce unemployment will not want to risk slowing economic growth by more than is absolutely necessary. A significant fiscal tightening is clearly indicated, however, and now is the ideal time to do it. The precise amount will depend partly on the Treasury's judgment, but mainly on Mr Brown's courage, though a structural tightening of about 1 per cent of GDP would seem ideal.

Eurobluff

Germany is overbanked. Its financial institutions are also inefficient by international standards. Yet the federal government is bent on perpetuating the unfair funding advantages enjoyed by public-sector banks while threatening to impose a capital penalty on private banks. An overdue consolidation in German banking could well be delayed as a result.

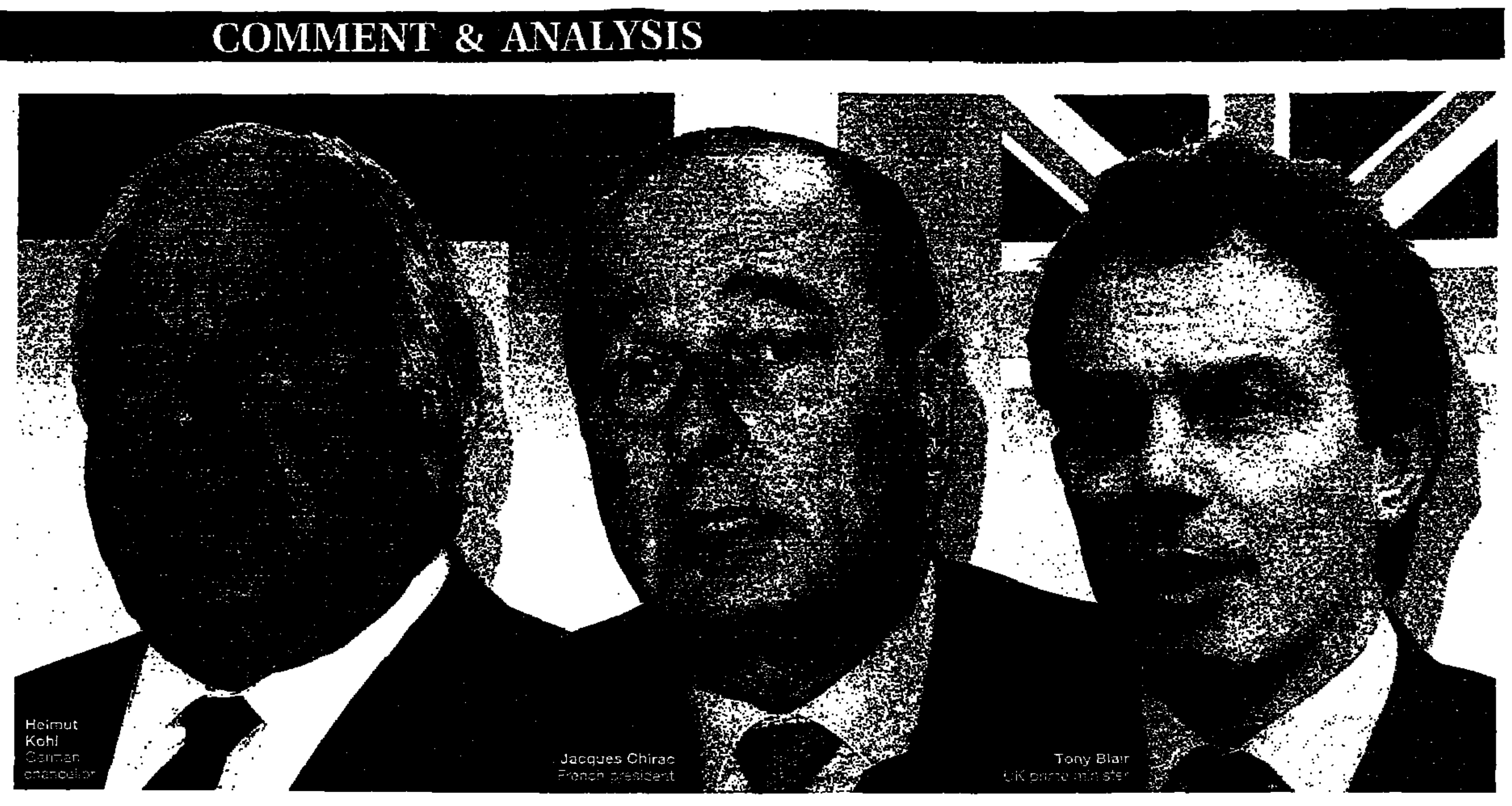
The saga began when the state of North-Rhine-Westphalia agreed to recapitalise WestLB, the largest of the landesbanks, back in 1992. WestLB's privately owned competitors were incensed that it appeared to be receiving a competitive advantage for free. They went to the European Commission, arguing that WestLB had received state aid in breach of Article 92 of the Treaty of Rome.

Rightly so. The cost to the landesbanks of their public interest function is small in relation to the benefit they gain from subsidised funding. The main credit rating agencies give them ratings of AAA or AA+. Yet the London-based agency IBCA estimates that without state guarantees, they would be rated A to AA. IBCA also puts a strong case that the whole system of guarantees infringes Article 92. Yet the Commission has been slow to act.

Part of the explanation is that an issue of competition policy has become unexpectedly linked to the fate of the European single currency. The German public banks have told the Commission that they may withdraw support for the euro if the ruling goes against them. This is significant because the publicly owned retail savings banks play a central role in persuading a reluctant German public to abandon its beloved D-Mark.

Blackmail from the public banks is accompanied by a threat from the federal government to inflict on the private banks a capital penalty on goodwill arising on acquisition. This would hit Deutsche Bank and Dresdner Bank, whose recent purchases of investment banks in London were made at substantial premiums to net assets. It would also slow the rationalisation of the domestic banking market.

If the birth of the single currency depends on such crude realpolitik, the German public might well ask whether the euro is worth having. It would be good to think that competition commissioner Mr Karel van Miert might call the German government's bluff – but probably a pious hope.



Helmut Kohl German chancellor; Jacques Chirac French president; Tony Blair UK prime minister

New Labour, new Europe

Britain's change of government is expected to lift the fog over negotiations on the future of the EU, says **Lionel Barber**

The new Labour government in Britain took a first, wary step towards Europe yesterday, declaring it is ready to sign the European Union's social chapter.

Labour's statement is more than a break with the Eurosceptic attitudes of its Conservative predecessors. It removes an important source of friction with European governments which saw the UK opt-out as a device to gain competitive advantage by refusing to adopt EU minimum social standards for workers.

Whether Labour's policy of "constructive engagement" with the EU amounts to more than Mr John Major's promise in 1990 to put Britain "at the heart of Europe" remains unclear. But the immediate impact of Labour's declaration is to give a fillip to the intergovernmental conference (IGC) on the future of the Union which is due to reach its climax at the Amsterdam summit in six weeks.

Originally, the IGC's task was to review the 1991 Maastricht treaty, signed in a mood of euphoria after the fall of the Berlin Wall. Maastricht was always an uneasy compromise between self-conscious defenders of the nation state, such as the UK and France, and nations such as Germany and the Benelux countries which harbour dreams of a deeper political union.

The treaty established a fixed timetable for economic and monetary union (Emu) by 1999 and extended the powers of the European parliament to block or amend EU laws. But it left matters of internal and external security subject to loose co-operation between national governments.

Maastricht barely secured ratification in Britain, Denmark and France. And a clause providing for a follow-up IGC to complete what one European Commission official calls "an unfinished symphony" threatens to reopen divisions over the treaty.

Impetus for further institutional reform has emerged through the EU's commitment to enlarge the Union to former communist countries of central and eastern Europe, most likely early in the next century. At least 11 countries are queuing to join the 15-member Union – creating irresistible pressure to reform EU institutions and decision-making.

Or so the argument goes. In the run-up to the Amsterdam summit, the main question is whether EU leaders accept the thesis of the "impossible status quo" or they put off tough choices.

"We are entering the end-game," says a Dutch diplomat. "But we still do not know the level of ambition which the leaders are ready to pursue."

Since the IGC's ceremonial launch 15 months ago in a refurbished car factory in Turin, the pace of negotiations has been glacial. Most blame an intransigent British Conservative government with an ideological antipathy towards greater integration which has grown under pressure from a tiny group of Tory Eurosceptics exploiting Mr Major's vanishing Commons majority.

Mr Blair's landslide election victory fundamentally alters the dynamic of the negotiations for Maastricht II. Labour's willingness to countenance a limited extension of majority voting in EU decision-making provides scope for horse-trading.

"All those countries which have been hiding behind the British will have to show their hands," says a senior Spanish diplomat. "Now we are going to have some fun."

The first signs of movement will appear in the next three weeks. The Dutch presidency is due to unveil a draft treaty text ahead of a European summit in the coastal town of Noordwijk on May 23, where Mr Tony Blair, the British prime minister, will make his official EU debut.

The smart money says Maastricht II will be far more modest than Maastricht I. But the devil lies in the detail of the treaty. There are several benchmarks for assessing how far EU leaders are ready to stretch their ambitions.

The first test is the embryonic common foreign and security policy which should better reflect the EU's economic power on the world stage. The latest proposals are little more than tinkering: a new policy-planning department in Brussels and a new "face" to represent the EU.

Far from moving toward a federal superstate, big European countries are increasingly going their own way on foreign policy. The failure of France, Germany, Spain and Italy to support a six-year-old EU position criticising China's human rights record confirms the trend. So does Britain and Germany's refusal to join the stabilisation force in Albania led by Italy and France.

The same fissures are apparent in the Franco-German proposal for a phased merger of the EU and its fledgling defence arm, the Western European Union. Ten countries subscribe to the idea, but Britain and the four "neutrals" – Austria, Finland, Ireland and Sweden – oppose the goal of turning the EU into an instrument of collective security rivalling the Nato alliance. For this reason, say insiders, the Paris-Bonn plan is dead.

The second test for the intergovernmental conference is whether member states are ready to support an extension of EU powers in areas such as asylum, visas and home affairs. Here the picture is blurred.

Most countries see co-operation as the most effective means of tackling organised crime and illegal immigration – both of which exploit the freedom of movement inside the EU's internal market.

These countries, led by Germany, also want to introduce majority voting on such matters and extend the role of the Commission and the European Court of Justice. The idea is to unblock the impasse in decision-making and strengthen democratic accountability.

The new Labour government is as wary as its Conservative predecessor of moving away from the Maastricht I model which rests on loose co-operation between national governments on matters of internal security. It fears losing control over British borders which, for an island nation, are relatively easy to police.

The prospective compromise is to allow Britain (and Ireland, which enjoys a common travel area with the UK) some form of extended opt-out. This would leave frontier controls intact, while allowing other member states to forge ahead with their growing co-operation under the Schengen accord, which would be incorporated into the new treaty.

This model of "flexible integration" could be adopted in other areas, subject to strict rules and supervision from the European Commission. The idea, pushed by the French and Germans, is to avoid being held back by the slowest ship in the EU convoy.

The new British government is not alone in voicing suspicions about calls for a general "flexibility clause" in the new treaty. The Italians and Spanish are nervous that it could be used by rich northerners to create their own elite club around membership of the future single currency zone.

Thus, the degree to which flexibility develops will depend on how far Britain and others are willing to soften the national veto, says one IGC negotiator.

The trade-off for Britain is a redistribution of voting power in the Council of Ministers towards the larger member states. This is essential, not only because eastern enlargement involves mainly small countries but also because the disproportionate power wielded by less populous countries raises questions of democracy and legitimacy.

Thus, in the original six EU member states, decisions could go ahead only with the support of countries representing 70 per cent of the total population. Today, the figure has fallen below 60 per cent. In a Union of 26 countries, a qualified majority could outvote France, Germany, Spain and the UK. "This is simply not viable," says a Scandinavian ambassador.

The most likely compromise is a "double majority", whereby decisions require the support of more than half the member states which also represent at least 60 per cent of the total EU population. But the small countries will expect preservation of their right to an individual EU Commissioner in Brussels.

The Dutch, Finns and Luxembourgers have threatened to block the IGC unless they get their way – and their blackmail looks like paying off. Big countries are likely to lose one of their two EU Commissioners, while the present ceiling of 20 Commissioners would remain. This would allow the first phase of enlargement of up to five new members to go ahead without revisiting the issue.

France argues such a deal implicitly violates the principle of an independent European Commission and undermines the goal of improving efficiency in EU institutions. The problem, says one official, is the lack of trust between members which itself is the most powerful brake on deeper political integration.

Chancellor Helmut Kohl of Germany, the driving force behind an ever closer European Union, recognised the limits of change when he spoke recently of a need for a "Maastricht III, IV and V". But the prospect of yet another constitutional debate is not one which member states such as France and the Scandinivian countries look forward to – especially if they had to put the results to a referendum. This may be the greatest incentive to strike a decent deal in Amsterdam in mid-June or early July.

Yet Mr Kohl's words carry a deeper meaning. He is warning the German public that his old promise of European political union in exchange for European monetary union no longer holds, says a German diplomat.

From the point of view of Britain's new government, this means Maastricht II ought to be manageable. The bad news is that Mr Kohl is more determined than ever that Emu goes ahead on time. Mr Blair has bought himself much goodwill with yesterday's initiative but on the issue that matters most – monetary union – Labour is offering no more than an open mind.

· OBSERVER ·

Mafia man for Mexico

■ Few ambassadors can be looking forward to ending their tour of duty as much as James Jones, the harried US envoy to Mexico.

The former Oklahoma lawyer, congressman and chairman of the American Stock Exchange was rewarded with the Mexico job four years ago after championing the US administration's struggle to bring Mexico into the North American Free Trade Area. He's on his toes this week during President Bill Clinton's first official visit to the country.

But instead of overseeing the growth of trade and investment between the two neighbours, Jones has more often found himself dealing with political assassinations, traumatic devaluations and Mexico's entanglement with drug cartels.

When the US Congress almost struck off Mexico from the roster of US allies in the war against drugs this year, Jones bore the brunt of the anti-gringo sentiment that swept Mexico. The exhausted ambassador, who can barely speak Spanish, admitted the annual US certification process was "unhelpful".

His replacement William Weld, the popular Republican governor of Massachusetts, became famous in the early 1980s for his merciless persecution of the Boston Mafia. During a stint as state attorney-general, he won 109 out of the 111 cases he brought against the Mafia on charges of political corruption and money laundering. Perhaps Weld will be able to teach the Mexicans a thing or two about law enforcement when he heads down Mexico way.

Digging in

■ The one former British Conservative minister still in government was giving little away yesterday about his post-election plans. Chris Patten, who has seven weeks left to run Hong Kong and has often been touted as a possible Tory leader-in-waiting, insists that he still intends to retire with family and dogs to France for six months.

With a book about Asia on the cards, he's already limbering up with two articles on gardening. One is on dry gardens – a somewhat surprising choice given the lush, sub-tropical vegetation of Hong Kong's Government House – for the Royal Horticultural Society. The other has been commissioned by a French magazine.

And just in case anyone thinks the Francophile Patten, instead of eying up Downing Street, might now harbour secret ambitions to become an EU Commissioner, he's quick to point out that the magazine article is written in "absolutely untranslateable English". That should keep the Tory Eurosceptics happy.

Monopoly money

■ Pavlo Lazarenko and United Energy Systems are often spoken of in the same sentence. The allegation that Ukraine's prime minister owns the country's largest private company has been made so often that few in Ukraine question it today.

Why else, the cynics ask, would the government have created a monopoly on gas trade that keeps prices artificially high, leaves many industries in the red and gives UES phenomenal profits each year? The company claims its revenues are $10bn (in a $50bn economy) while critics say Lazarenko's personal fortune could run into several hundred million dollars. The man himself dismisses all the charges as "groundless".

But Ukraine's reputation for rampant corruption is now hurting its once friendly relations with the west. Uncomfortable questions are being asked. Some congressmen on Capitol Hill want Ukraine's status as the third-largest recipient of US assistance in the world reconsidered.

So Washington-based Edelman Public Relations has been brought in to touch up Ukraine's image. It has organised Lazarenko's press conference today at which he'll answer questions head on before the western media. And who exactly is footing Edelman's bill? None other than UES.

False note

■ It seems Ireland's lengthy love affair with the Kennedy clan has finally come to an end. A musical extravaganza called JFK, featuring the life and times of the former president, has bombed in Dublin. JFK – believed to have cost its American backers $1m – had its world premiere in the Irish capital two weeks ago.

It was to have played locally until early June, before transferring to London's West End and Broadway. Now the show has closed. "The making of a few bob aside, it is difficult to know just what the creators of JFK may have had in mind," said the theatre critic of the Irish Times. The show's producers said one of the reasons they opened the show in Dublin was because of the widespread admiration in Ireland for the Kennedys as an Irish-American family. Or not.

The Financial Times

100 years ago

Moustaches And Beards
From Reading, Pennsylvania, comes the news that the superintendent of the Reading and South-Western Street Railway recently issued orders to all employees that they must dispense with their moustaches and beards. There is something in that date which suggests that the cruel edict is really a sample of Yankee humour. But if not, we want to know the views of the labour leaders of Great Britain on this vital point. The tyranny of capital has never been carried out to such an extreme in this country.

50 years ago

Germany From Bad To Worse
The German economic position is still going from bad to worse. The continuing deterioration cannot be attributed only to the severity of the past winter with its consequent breakdowns in the already chaotic transport system, the cuts in electricity and reductions in coal consignments to the factories. The causes are more permanent than the weather, and unless they are removed the money which the British are now spending will be so much more down the German drain.

FINANCIAL TIMES
Tuesday May 6 1997

Germans remain sceptical about single currency

Euro trial-run fails to impress Berliners

By Frederick Stüdemann in Berlin

Ms Christel Blumeier has seen it all before. Seven years ago the east German office worker saw the total in her bank balance halve as soft Ostmarks were converted into hard D-Marks.

Yesterday a few of those D-Marks were again halved when she exchanged them for euros at a rate of two D-Marks per euro as part of a test-run promoted by the European Commission. The aim was to persuade a sceptical German public of the virtues of a single European currency. In spite of a public information campaign, opinion polls say two-thirds of Germans oppose a single currency.

The specially minted euros Ms Blumeier bought at an exchange booth on Berlin's Alexanderplatz are little more than shiny bits of metal stamped with images of the Brandenburg Gate and a map of Europe. They are not permanent legal tender.

Soon they will be as valuable as the Ostmark coins Ms Blumeier keeps at home as souvenirs. But for this week at least the euros have limited purchasing power in shops and restaurants in the main retail centres of Berlin.

The euros are the centrepiece of a public relations exercise backed by the city of Berlin and the federal government. The project is organised by Landesbank Berlin which oversaw the minting of 1.8m euro coins. A further 15,750 collectors' euros in gold and silver are also on sale.

The bank said the collectors' coins had almost sold out and about 400,000 of the plain euros were bought on Friday when they went on sale.

Bank officials acknowledge that many of those buying are doing so simply to collect the historic coins.

"There has been a lot of interest with people taking away brochures," says the sales assistant at the euro stand in the Kaufhof department store. But actual sales in euros have been unimpressive.

A father and daughter wanting to buy a thermos flask – priced at 10 euros or DM20 ($11.60) – looked perplexed when asked whether they would pay in D-Marks or euros. "Euro? What's that? Where do I get it?" asks the father, a retired railwayman.

Asked what he thinks of a single currency, he says: "If they bring it in, then I'll move to England!" His daughter believes that there should be more explanation of the euro.

For the government such views are frustrating. Those overseeing the experiment acknowledge that German monetary union, in which Ostmarks were exchanged at two for one D-mark, may have produced scepticism in the east. "On paper people saw they had less than before," says one bank manager.

Delight in Brussels as Britain turns on the charm

By Lionel Barber and Neil Buckley in Brussels

The Labour government yesterday mounted a charm offensive on its European Union partners, declaring that Europe was an "opportunity not a threat" for Britain.

Labour's new co-operative policy – highlighted by a declaration that it will shortly sign the EU's Social Chapter – delighted negotiators at the intergovernmental conference in Brussels.

"The UK is coming from the outer edges into the mainstream of the European debate," said one EU diplomat.

Mr Michel Barnier, France's minister for European affairs, said the UK government's more constructive attitude increased the chances of completing the IGC negotiations by next month's Amsterdam summit. "We hope that there will be a change in the climate," he said. "We think the negotiations needed this new climate."

Mr Doug Henderson, Britain's new minister for European affairs, told his counterparts it was time to draw a line under the recent past when previous Conservative governments had been at loggerheads with the EU.

"We want to work with you as colleagues in a shared enterprise," he said.

Ministers and negotiators from other countries reportedly "beamed" as Mr Henderson outlined Britain's more flexible negotiating stance.

Labour backs a limited extension of majority voting to allow the union to adapt its decision-making ahead of enlargement to central and eastern Europe. It also supports giving the European Parliament more powers of co-decision where majority voting applies, such as in single market legislation.

The centrepiece of yesterday's presentation was an announcement that Britain will end more than five years of isolation on EU social policy. This goes back to 1991 when the Conservative government insisted on an opt-out from the Social Chapter in the Maastricht treaty.

The European Commission said it was examining ways of bringing Britain fully into the chapter without waiting for ratification of the Maastricht 2 treaty.

Mr Barnier warned that tough bargaining lay ahead, pointing to British opposition to Franco-German proposals for a phased merger of the EU and the Western European Union, its defence arm.

Europe round-up, Page 3
Dutch press Blair, Page 9
First, wary step, Page 15

US presses Zaire rebel chief to avert Kinshasa bloodbath

By Michela Wrong in Kinshasa

The US yesterday stepped up diplomatic pressure on Mr Laurent Kabila to engineer a peaceful entry into Kinshasa as the rebel leader claimed his troops had moved within striking distance of the capital's international airport.

In a flurry of last-minute diplomacy triggered by the failure of peace talks at the weekend between Mr Kabila and President Mobutu Sese Seko, a US envoy flew to the rebel-held southern city of Lubumbashi to deliver a message from President Bill Clinton.

"The objective of my urgent mission is to prepare a soft landing for Mr Kabila's rebels when they reach Kinshasa, a landing that avoids bloodshed and chaos," said Mr Bill Richardson, US ambassador to the United Nations.

His latest bout of shuttle diplomacy also involved meetings with Ugandan president Yoweri Museveni and Rwandan vice-president Paul Kagame, the two regional leaders with most influence over Mr Kabila.

It was not clear what assurances Washington was seeking from the Alliance of Democratic Forces for the Liberation of Congo (AFDL), which says it will be ready to enter Kinshasa's suburbs within two or three days.

But the fact that US efforts to avert a bloodbath in the city of 5m inhabitants are focusing on the AFDL suggests Washington has accepted Mr Mobutu is not open to persuasion.

The 66-year-old president's agreement to meet Mr Kabila aboard a South African warship had fuelled hope that a peaceful handover could be negotiated. But Mr Mobutu offered only to cede control to a president elected in polls organised by an interim authority, indicating he planned to rule during what is certain to be a lengthy transition process.

"Mobutu blew it," said a diplomat. "It was his last chance to negotiate a dignified departure and he spurned it." Mr Mobutu's delegation flew back to Kinshasa from Congo yesterday, but there was no public sighting of the president, said to be resting at his villa.

Sunday's disappointing outcome, which raises the prospect of a battle between the AFDL and Mr Mobutu's presidential guard, has heightened tension in the capital.

Market punishes HPI over Marzotto deal

Continued from Page 1

late Mr Raul Gardini, Mediobanca and the other members of the salotto buono thought they had finally resolved the future of their Gemina industrial and financial interests.

However, the Marzotto family including Count Pietro Marzotto, who was due to become the executive chairman of the new merged company if the deal had gone through, had become increasingly worried in recent weeks over the industrial and financial implications.

It would have left Marzotto as the second largest shareholder with a 12.4 per cent stake after Fiat with 17.3 per cent. Mediobanca would have held a 10.5 per cent stake.

In the short joint statement announcing the merger's failure, the two parties referred to "irrevocable differences" on how to structure and manage the new conglomerate.

SAP probe

Continued from Page 1

news of the insider dealing probe before recovering to end DM3.10 higher at DM324.50 on a day which saw the whole market reach a new record.

The company said it was keen that the suspicions of insider trading should be cleared up as soon as possible and was co-operating fully with the authorities.

It has provided information about senior employees' telephone calls to help the authorities.

THE LEX COLUMN

Gold dust

The Bre-X debacle was a piece of news which the gold mining industry, already on its knees with a rock-bottom bullion price, could have done without. The pain is not shared equally. Apart from private investors, the worst losers are the Canadian juniors, the small exploration companies that have spearheaded an unprecedented global gold rush in recent years. Already they are finding it harder to raise capital, and their costs will be increased in future by demands for more convincing proof that deposits actually exist. Exploration will not cease – the majors will step into the breach. But they are more risk averse, and the cutting edge of the exploration effort will be blunted.

Meanwhile, regulators should avoid any precipitate response. Markets will do much of their work for them – the big rise in risk premiums on juniors will serve to warn uninitiated investors. And speculative projects will find it much more difficult to attract finance. Clearly some tough questions should be asked about disclosure and corporate governance. For a company of such prominence, too little was asked of, or known about, the deposit. However, in an affair in which most of the world's professional mining community was duped, it is not clear that extra protection would have helped the private investor. In any event, those who chase after high rewards can hardly complain when they are sometimes asked to pay the price.

Conglomerates

There are traitors in the UK's conglomerates sector. After six years of consistently dramatic under-performance, diversified industrials are keen to defect to other sectors. Charter and BTR are would-be engineers, Williams would prefer to be in support services and Cookson would like to be anything else. But while it is convenient for managements to blame share price slumps on stock market fashion, it goes against the grain of efficient market theory. Are investors stupid enough to think Williams becomes more valuable if it is in the same sector as Rentokil? After all, nearly 80 per cent of its profits come from manufacturing, not services.

Precedent provides some small support to the theory. Morgan Crucible became a building materials company in late 1993 and was rerated. And profit set-backs at conglomerates have been disproportionately punished against, say, the engineering sector. Clearly, fund managers find it harder to be bullish about conglomerates, and sector analysts have been ground down by years of disappointment.

But the fact is that British industrial conglomerates – to be distinguished from the likes of Granada – have failed to create value. The sector's big acquisitions of the 1980s like Consolidated Goldfields, RHM and Hawker Siddeley did not benefit shareholders. And while there is a role for certain types of conglomerate – a restructuring-led business like a Kohlberg Kravis Roberts – portfolio diversity is no justification for a business. Tougher accounting rules have also revealed how difficult it is to create value through deals. While some short-term buying opportunities will present themselves, conglomerate shares have done badly primarily because managements failed to adjust to a changing business climate. Sector reclassification is not the obvious solution.

Treasury/bund spread

Investors should not be deceived by the tumble in US bond yields. The treasury-bund spread, recently as wide as 119 basis points, is down to 103. Traders have fastened on to benign economic data as an excuse for interest rates staying unchanged. They are likely to be disappointed. The medium term outlook for bonds is bearish: the International Monetary Fund forecasts world growth of 4.4 per cent this year, the fastest for a decade, while the OECD's leading indicator for US growth is pointing up again.

It may be that the ultra-competitive state of the US economy prevents this spilling over into significant inflationary pressure. But there is little to dissuade the Federal Reserve from erring on the side of caution. With more monetary tightening on the cards, US 10-year bond rates look set to rise towards 7¼-7½ per cent later this year.

What of Germany? The economy may be picking up, but there is no sign of inflation. Add to this the high rate of unemployment, and there is little chance of German short rates rising any time soon. Bond yields may creep up above 6 per cent, but the odds favour a widening of the treasury-bund spread to over 130 basis points later this year. Convergent growth rates will eventually close the gap, but that still looks like next year' story. Meanwhile, a widening interest rate differential leaves the dollar looking well supported.

Eurotunnel

One of the more ticklish problems for Britain's new government will be Eurotunnel's latest pleas for an extension to its concession. The case for such a free gift is shaky. If Mr Tony Blair has any backbone, he will ignore the request.

But what if he were tempted to agree a bail-out? After all, the French government is keen to pander to Eurotunnel's many unhappy shareholders. And Labour might want to curry favour with the French. But even then, it is doubtful that handing Eurotunnel a free extension is the right way of proceeding. After all, this would mean taxpayers giving up an asset whose value is considerable, if opaque. And by and large, governments which hand over their possessions should know what they are worth.

So here is a modest proposal. Rather than quietly handing rights over the tunnel's future revenues to Eurotunnel, why not put them up for auction? Or float them, suitably securitised, on the stock exchange? Then, if the two governments really want to bail the tunnel out, Eurotunnel could be given the proceeds.

That might seem a roundabout means to much the same end. But a transparent process, open to all bidders, would establish a credible price for the asset. That way, taxpayers could see what their governments' generosity was costing them. Even better, they might be prompted to question whether it was a good use of the cash.

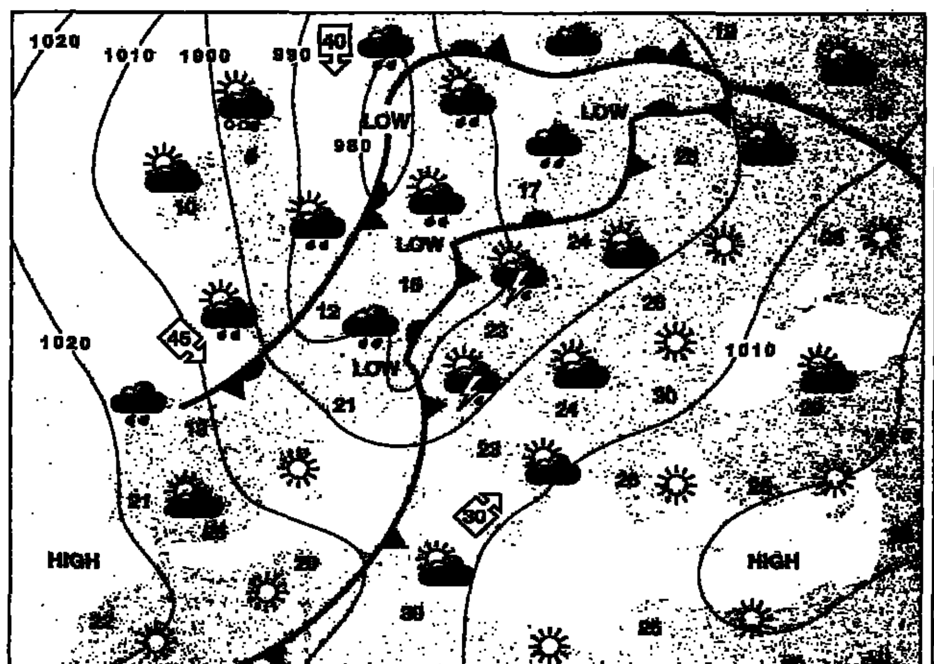
FT WEATHER GUIDE

Europe today

A north-westerly wind will push unseasonably cool air towards the UK, western France and the Benelux. In this chilly air mass, showers will develop, some with hail or thunder.
A cold front over northern Italy and Poland will mark the boundary, with warm air to the east. Along the front there will be widespread rain, especially in the southern Alps, and some thunder.
Most of southern Europe will be sunny with temperatures up to 30C in the south east.

Five-day forecast

Cool air will persist over western and central Europe and this will give way to more unsettled conditions.
West to north-westerly winds will push unseasonably cool air into the Iberian peninsula.
South-east Europe will continue warm and sunny, before thunder showers bring some cooler air on Thursday and Friday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 25	Caracas	shower 31	Faro	sun 21	Madrid	fair 17	Rangoon	fair 38
	Celsius	Belfast	hail 8	Cardiff	cloudy 9	Frankfurt	shower 16	Majorca	sun 19	Reykjavik	fair 3
Abu Dhabi	sun 33	Belgrade	cloudy 25	Casablanca	fair 21	Geneva	rain 16	Malta	sun 24	Rio	shower 27
Accra	shower 31	Berlin	thund 22	Chicago	fair 16	Gibraltar	sun 23	Manchester	shower 7	Rome	thund 23
Algiers	shower 19	Bermuda	fair 23	Cologne	shower 15	Glasgow	cloudy 10	Manila	thund 35	S. Frsco	fair 21
Amsterdam	rain 11	Bogota	shower 19	Dakar	sun 26	Hamburg	rain 17	Melbourne	rain 20	Seoul	fair 28
Athens	sun 23	Bombay	fair 33	Dallas	fair 28	Helsinki	cloudy 12	Mexico City	shower 25	Singapore	cloudy 33
Atlanta	fair 25	Brussels	rain 13	Delhi	sun 34	Hong Kong	rain 28	Miami	fair 28	Stockholm	cloudy 12
B. Aires	sun 21	Budapest	fair 22	Dubai	sun 34	Honolulu	fair 29	Milan	rain 14	Strasbourg	shower 16
B.ham	hail 8	C.hagen	shower 13	Dublin	shower 8	Istanbul	sun 26	Montreal	rain 14	Sydney	fair 25
Bangkok	fair 38	Cairo	sun 26	Dubrovnik	fair 22	Jakarta	fair 33	Moscow	shower 16	Tangier	shower 20
Barcelona	sun 19	Cape Town	sun 22	Edinburgh	cloudy 9	Jersey	shower 9	Munich	thund 19	Tel Aviv	fair 23
						Karachi	sun 36	Nairobi	fair 25	Tokyo	fair 26
						Kuwait	fair 40	Naples	fair 21	Toronto	cloudy 12
						L. Angeles	sun 27	Nassau	fair 30	Vancouver	shower 15
						Las Palmas	sun 24	New York	rain 15	Venice	rain 18
						Lima	fair 25	Nice	cloudy 21	Vienna	fair 23
						Lisbon	fair 17	Nicosia	sun 26	Warsaw	cloudy 21
						London	shower 9	Oslo	rain 11	Washington	cloudy 20
						Lux.bourg	shower 12	Paris	rain 11	Wellington	fair 17
						Lyon	rain 18	Perth	fair 19	Winnipeg	fair 15
						Madeira	fair 20	Prague	cloudy 23	Zurich	rain 15

FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday May 6 1997

Week 19

IN BRIEF

Andersen urges non-US partner

The board of Andersen Worldwide, the New York-based umbrella organisation for the world's largest professional services group, has urged partners to appoint its first non-US managing partner and chief executive. Page 18

Hoechst profits beneath expectations
Hoechst, the world's largest drugs and chemicals group, posted pre-tax profits of DM831m ($480.8m) in the first quarter, 9 per cent up on last year, but below expectations. Page 18

VW shares higher on overseas demand
Shares in Volkswagen, Europe's biggest carmaker, surged after the German group said strong foreign demand and a more favourable exchange rate helped lift pre-tax profits 48 per cent in the first quarter. Page 20

Northrop Grumman acquires Logicon
Northrop Grumman, the US aerospace group, is to acquire Logicon, a defence information technology specialist based in California in an agreed *stock-swap deal*. Page 20

Shell pressed over 'green' standards
Two leading environmental and human rights organisations have come out in favour of a shareholder-sponsored resolution calling for Royal Dutch/Shell to introduce rigorous standards for measuring its environmental and human rights policies – including independent external audits. Page 24

Regent Pacific share set at HK$2.62
Regent Pacific, the emerging markets investment house, priced its *HK$447m (US$57.7m)* Hong Kong stock market flotation at HK$2.62 a share. Page 21

Proton to be 'independent' by 2000
Proton, the Malaysian "national" carmaker set up with technical assistance from Mitsubishi Motor, of Japan, should be able to build its first independently developed vehicle before the end of the century. Page 21

BiB goes digital and interactive
British Interactive Broadcasting, the £700m *($1.13bn) company to be launched tomorrow to* offer home shopping and banking on digital satellite television, also plans to provide interactive services on digital terrestrial TV. Page 24

Whitbread plans to sell 400 pubs
Whitbread, the brewing and leisure group, intends to sell many of its underperforming pubs and off-licences as part of an effort to improve its return on capital. The group has drawn up plans to dispose of about 400 of its 3,700 pubs. Page 24

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	345.5	+	11.5
Daimler Benz	138.2	+	4.5
GEA Pf	615	+	16
SGL Carbon	248.9	+	8.9
Volkswagen	1198	+	41
Falls			
Ind Werke	455	-	15
NEW YORK ($)			
Rises			
Allegiance	25½	+	2¼
Comdisco	38½	+	3½
Florida E Coast	108	+	19¼
Logicon	50	+	9⅝
Transitional HP	14¼	+	4¼
Vivra	35⅛	+	6⅞
TORONTO (C$)			
Rises			
Arbor Mem B	34	+	4
Asbestos	23.00	+	17.55
Biochem Pharm	32.35	+	4.00
Falls			
Cabletel Comm	5.2	-	1.3
IndoChina Gld	10.9	-	2.4
Scorpion Mnl	1.81	-	1.09
PARIS (FFr)			
Rises			
Accor	879	+	24
Danone	879	+	16
Elf Aquitn Cts	525	+	25
Renault	141.7	+	4.7
Falls			
Cred Lyon	192.1	-	7.9
UFB Locabail	505	-	7
HONG KONG (HK$)			
Rises			
Cheung Kong	73.5	+	2.75
HSBC Hld (5)	202.0	+	4.5
Henderson Land	70.5	+	3.0
New World Dev	48.5	+	2.8
Wharf Hldgs	30.5	+	1.35
Wheelock & Co	17.1	+	0.95

Bangkok, London and Tokyo closed. New York and Toronto prices at 12:30.

Paper groups to merge in $3.4bn deal

James River and Fort Howard to form world's second largest tissue manufacturer

By Richard Tomkins in New York

James River and Fort Howard, *two of the biggest companies* in the US paper industry, yesterday announced they were merging in a $3.4bn deal that *will create a new company* called Fort James.

It is the first big merger in the paper industry since Kimberly-Clark took over Scott Paper in 1995, and will reinforce James River's position as the world's biggest tissue maker after Kimberly-Clark.

The deal prompted speculation that it could presage a bout of consolidation in the US paper industry, which is suffering from overcapacity, and paper company stocks rose sharply on the New York Stock Exchange.

James River and Fort Howard portrayed the deal as a merger of equals, but it is structured as a takeover by James River, the larger of the two. In effect, Fort Howard's shareholders will receive 1.375 James River shares for each share they own, and all the James River shares will be renamed Fort James.

James River's share price was up $⅝ at $31¼ in early trading yesterday, valuing Fort Howard at just under $43. Fort Howard's shares jumped $4⅛, or 11 per cent, to $40⅞.

Fort Howard and James River are both big manufacturers of tissue products, but the latter is bigger in consumer products, while the former is mainly in the commercial and industrial market.

Last year James River made net profits of $99m on revenues of $5.7bn. *Its US brands* include Quilted Northern bathroom tissue, Brawny paper towels, Vanity Fair napkins and Dixie cups and plates. In Europe, where it has manufacturing capacity in 10 countries, it makes the Lotus range of *tissue products*.

Fort Howard made net profits of $163m on revenues of $1.6bn last year, including unusual items. *It has three* plants in the US, one in the UK and a joint venture in China. Its brands include Mardi Gras, Soft 'N' Gentle and Green Forest. *It is also a big supplier of* private label products.

The companies said the merger should yield cost savings of at least $150m next year, rising to more than $300m. These would come from eliminating overlapping functions, maximising the use of manufacturing capacity, sharing best practices and better purchasing efficiencies.

Mr Miles Marsh, chairman and chief executive of James River, said the new company would benefit from the combination of James River's strong brands and marketing *skills* with Fort Howard's low-cost manufacturing base and leadership in commercial products.

"It is truly a merger of co-equals that are better off together than they are apart," said Mr Marsh, who will become chairman and chief executive of the new company.

The deal has been approved by Morgan Stanley, the US investment bank, and other shareholders which control about 20 per cent of Fort Howard's stock, following a leveraged buy-out in the 1980s.

Moscow to issue first Russian municipal eurobond

By Edward Luce in London and John Thornhill in Moscow

The City of Moscow is to launch Russia's *first* non-sovereign bond in the international capital markets later this month.

The Moscow *eurobond* issue, totalling between $300m and $500m, is expected to be issued within the next 20 days, *according* to bond analysts in London.

The offering, which will have a maturity of between three and five years, follows the success of the Russian government's debut eurobond last October. The $1bn issue – Russia's first international bond offering since 1917 – was followed by the country's first D-Mark denominated offering earlier this year.

The City of Moscow, the first in a queue of Russian municipalities planning to issue dollar bonds overseas, was recently awarded a credit rating of BB minus by Standard & Poor's, the US rating agency. S&P said Moscow's rating had been "constrained" by the Russian Federation's "debt ceiling" of BB minus. This implies that Moscow's rating will rise in tandem with that of Russia.

"The Moscow eurobond will probably perform better than the Russian eurodollar bond," said one debt analyst in London. "Moscow has a much healthier budget situation than the Russian *government* and other large cities like St Petersburg."

The Moscow bond, which *will be lead-managed* by Credit Suisse First Boston and Nomura Securities of Japan, is expected to become a bench*mark for other* Russian municipal eurobond offerings.

Moscow, one of the few Russian cities with a budget surplus, hopes to reduce the cost of its debt with the eurobond issue. Domestic rouble bonds have an annualised yield of more than 20 per cent, compared with about 9 per cent on Russia's overseas debt.

Mr Andrei Kozlov, a deputy chairman of Russia's Central Bank, said the issuance of eurobonds by municipal authorities would help attract foreign investors.

He added *that* the *federal* government would want to co-ordinate the timetable for such capital-raising exercises, *suggesting the rate of* issuance may be slower than some foreign investment banks have been predicting.

"*I do not expect a flood* of new issuance," he said. "So far, only Moscow, St Petersburg and Nizhny Novgorod *have been authorised by presi*dential decree to issue eurobonds, and other regions will have to produce detailed financial information and other documents."

London and Chicago's futures markets start sharing contracts on Friday

Rivals unite in a marriage of convenience

By Laurie Morse in Chicago *and Samer Iskandar in London*

Futures markets could see the start of a new era on Friday when an unusual *co-operation* between competing futures markets in the US and the UK begins.

When the opening bell rings at the London International Financial Futures and Options Exchange (Liffe) on Friday morning, traders there will have first crack at determining the day's price for US Treasury bond futures, while Chicago traders and New York securities dealers are still asleep.

Later in the day, as London closes, Liffe dealers will not only hand over trading in T-bond futures to Chicago, but traders at the Chicago Board of Trade will deal Germany's 10-year Bund futures and options for the first time.

Why are the world's two largest futures exchanges, often rivals, sharing their biggest contracts? Both hope the exposure of their prime products in another time zone will generate new business. Fees generated by Bund trading in Chicago will flow back to London, while income from US T-bond trades at Liffe will be paid to the CBOT.

Since these will be after-hours markets, the windfall will not be large.

"We'll *consider it a smash*ing success if 10,000 Bund *futures and options contracts* are traded each day in Chicago," said Mr David Nuelle, managing director of the Chi*cago-based options specialist* Helios Trading Group. That compares with about 200,000 lots traded in London.

Still, the link is important. Volume in fixed-income products in the US has been flat for more than a year, leaving traders hungry for new ways to make money. London, in contrast, is booming. However, with European exchanges locked in competition for dominance after the currency convergence in 1999, Liffe has little to lose in reaching for market share overseas.

Similar links between the Chicago Mercantile Exchange and the London and Paris futures exchanges are planned, and their prospects will be determined by the CBOT/Liffe alliance. Success would also mean that the CBOT and Liffe would go forward with plans to share Italian lira and US Treasury note futures.

Links between derivatives exchanges have been proposed for years, but only one, an offset agreement between the CME and the Singapore International Monetary Exchange, has operated successfully over the long term.

Liffe officials hope Chicago's *excitement about the Bund* contract will spill over to US investors, whose interest in internationalising their portfolios is growing. Preparations for Emu are a favourable factor in this.

"The Bund contract is seen as the future euro benchmark," said a trader at a large continental European bank. "Trading Bunds in Chicago is perceived as having a foot in the *door of what is going to* become one of the largest bond markets in the world."

Liffe's enthusiasm about having US Treasury bond futures on its trading floor has dampened recently, following a decision by the CBOT to keep its after-hours computer trading system open during London hours. This will force Liffe's T-bond pit traders to compete with a machine that logged a record 235,000 *after*-hours T-bond futures and options trades last month.

While London should garner volume in US Treasury options on opening day, few dealers are expected to shift orders off the computer.

If Bund orders flow into Chicago on Friday, Liffe will be the biggest beneficiary, cementing London's position as the world's financial centre.

Chicago's traders will also benefit. "This is a great opportunity," said Mr Nuelle. "We have a lot of young kids looking for a successful new product, and who are willing to take the risk to try and make it work."

Traders on the Liffe floor in London have little to lose by seeking market share abroad Picture: Reuter

Liffe said it had enjoyed its busiest April on record, with 16.02m contracts traded, up 45 per cent on the same month in 1996. Both Euroswiss and Eurolira futures contracts set monthly trading records. In the first four months of 1997, LIFFE volume was 16 per cent ahead year-on-year.

Legal dispute on DNA chip patents

By Roger Taylor

A US biotechnology company is challenging Oxford University in a legal wrangle over ownership of one of the most powerful medical innovations of recent years.

The issue is who invented the DNA chip – a device for rapidly analysing human genetic make-up using silicon chips containing bits of DNA.

Potential revenues from the *new chip are large, as experts* predict it will form a key platform for future research.

It has the potential to uncover connections between genes and disease, diagnose people's susceptibility to different illnesses and devise new therapies.

Affymetrix, a US biotechnology company 34 per cent owned by Glaxo Wellcome, is *one of the leading developers* of the new technology.

The loss-making company, which has a market value of *over $500m, has already begun* marketing chip products in the US. *However, plans to expand* into Europe have met an obstacle in the form of Professor Ed Southern of Oxford University, who claims to have invented DNA chips and has a Europe-wide patent.

The patent is currently assigned to the University, which has agreed to assign it to Oxford Gene Technology, a newly-formed biotechnology company owned by Professor Southern and the University.

*Several companies, includ*ing Roche of Switzerland and Abbott Laboratories in the US as well as Affymetrix have registered objections to the patent.

However, it could take years to make a decision, and in the meantime Professor Southern's patent stands.

To overcome this obstacle, Affymetrix has now begun discussions with the professor to agree a licencing deal. The company said: "We greatly respect Professor Southern *and hope to be able to settle* this amicably."

US data strengthen markets

By Philip Coggan and Edward Luce

European financial markets strengthened yesterday because economic data from the US on Friday reduced fears that *the Federal Reserve* was about to raise interest rates.

Six bourses recorded all-time highs, including Zurich where the *Swiss Market Index closed* above the 5,000 level. The Frankfurt market was particularly strong, with the DAX index *rising 2.1 per cent in* post-bourse trading to a closing peak of 3,565.69. Amsterdam, Brussels, Lisbon and Madrid also set records.

Another strong start on Wall Street helped sentiment with the Dow Jones Industrial Average looking, in early trading, as if it might top its all-time peak of 7,085. At 1pm New York time, the Dow was 10.03 points higher at 7,081.23.

Weaker-than-expected *non*-farm payroll numbers on Friday had reduced inflation and interest rate concerns and *helped the Dow jump 94* points. The continued strength of the dollar, which benefits European exporters, supported equity markets.

European bond markets rallied partly because most markets had been closed on Friday for a public holiday. German 10-year bund futures gained 0.16 to close at 101.76 in Frankfurt. French, Italian and Spanish government bonds drew strength *from the US statis*tics, although trading was thin due to a UK public holiday.

US treasury bonds lost *ground in a technical correc*tion after last week's gains.

Hoechst warns on impact of shake-up

By Graham Bowley in Frankfurt

Hoechst, the world's largest drugs and chemicals group, posted profits before tax of DM831m ($480.8m) in the first quarter, 9 per cent above last year's level but below market expectations.

The German group warned that its radical restructuring, under which it is spinning off its speciality chemicals, plastics and diagnostics divisions, meant sales and profits in 1997 would be lower than last year.

Hoechst predicted sales of DM42bn-DM47bn this year, down from DM50.93bn in 1996. It forecast a drop in operating profits but remained upbeat about net profits after adjusting for reorganisation.

"On a comparable basis, we expect earnings from operating business to increase as a result of lively demand, price increases in the industrial sector and positive exchange rate effects," it said.

Hoechst shares, which have underperformed since the company controversially abandoned plans earlier this year to seek a separate listing for for its pharmaceuticals business, lagged behind the market again yesterday. They closed flat at DM66.78, against a rising market.

"Hoechst is a company in transition which is fighting battles on many fronts," said Mr Andreas Schmidt, analyst at BZW in Frankfurt. He said that the group's pharmaceuticals and life sciences divisions were doing better than expected, but its chemicals unit was disappointing.

Hoechst adjusted the first-quarter earnings figures to reflect restructuring costs of DM195m, compared with DM85m in the same quarter last year.

Last year's figures were also bolstered by the sale of the printing plate business and a profit contribution from SGL Carbon, the maker of carbon and graphite products in which Hoechst no longer has a majority stake, it said.

Sales rose 1 per cent over the same period last year, to DM13.2bn. Prices were 2 per cent lower on average than in the previous year, but the group said there were signs of a price recovery. Favourable exchange rate movements, in particular the appreciation of the US dollar against the D-Mark, boosted sales.

Without adjustments for the group's changes, operating profit in the first quarter dropped 22 per cent compared with a year earlier, to DM1.03bn. But it was 20 per cent higher than a year ago after adjustments, the group said.

Mr Klaus-Juergen Schmieder, chief financial officer, said he expected the second quarter to show a distinct improvement, even though the group needed to spend more than DM500m during 1997 for restructuring.

Hoechst said the integration of HMR, its drugs business which it had planned to list separately, was proceeding as planned.

Andersen board looks to UK for new chief

By Jim Kelly, Accountancy Correspondent

The board of Andersen Worldwide, the New York-based umbrella organisation for the world's largest professional services group, has urged partners to appoint its first non-US managing partner and chief executive.

The decision to put forward the name of Mr Jim Wadia, the 49-year-old managing partner of accountants Arthur Andersen in the UK, signals a symbolic cultural shift for the organisation, founded in Chicago in 1913.

The recommendation will go to the organisation's 2,700 partners this week for a formal ballot. An official announcement will be made this month if Mr Wadia gets the required two-thirds majority.

Mr Wadia has been closely involved in the so-called Andersen 21 project to find a strategic way forward for the group.

In Paris last week, partners voted to back the project's recommendation and keep the two business units – Arthur Andersen and Andersen Consulting – together within the Andersen Worldwide structure.

The organisation has been under pressure to cope with Andersen Consulting's rapid growth and Arthur Andersen's development of consulting services, which has sometimes clashed with its sister firm.

Mr Wadia, who is a qualified barrister and chartered accountant, said yesterday he was "honoured" to be put forward but otherwise would not comment – an indication that the succession is no formality and that the organisation still has to deal with its internal problems.

Before last week's meeting in Paris – at which the option to allow the consulting business to demerge and float was considered – Mr George Shaheen, managing partner of Andersen Consulting, was one of the candidates to succeed Mr Larry Weinbach as chief executive when he steps down in August.

Mr Wadia is unlikely to have been nominated without clear indications that he will win support from Andersen Consulting's 1,000 partners – as well as the backing of the 1,700 in Arthur Andersen.

He is well known in the organisation, and is seen as a non-confrontational candidate who confounds the Andersen "robot" label with a relaxed management style.

Jim Wadia: nomination signals a symbolic cultural shift for the organisation

Swiss insurers turn in strong performances

By William Hall in Zurich

Swiss Re and Zurich Insurance, Switzerland's two biggest insurers, increased profits by about one-third in 1996. The continued recovery in the earnings of the two groups was helped by strong investment performance, favourable currency developments and the first-time impact of acquisitions.

Swiss Re, the world's second biggest reinsurance company, increased net profits by 33 per cent to SFr1.46bn ($991m). This is nearly triple the figure of three years ago, and the company underlined its confidence by proposing to increase its dividend by a third to SFr30 a share. Swiss Re shares rose SFr45 to SFr1,800 yesterday, helping push the Swiss Market Index to a record high.

Swiss Re's profit announcement follows a 30.2 per cent rise in Zurich Group's net profits to SFr1.14bn. Earnings per share rose by 26.5 per cent to SFr24.3 and the group plans to raise its dividend by 20 per cent to SFr7.20 a share.

Pre-tax profits of Zurich's non-life business rose by 14 per cent to SFr1.44bn. Its loss ratio improved in spite of further strengthening of loss reserves, but the expense ratio rose due to restructuring costs. Zurich's non-life profits more than doubled to SFr337.1m, primarily due to the acquisition of the Kemper life insurance business in the US.

Swiss Re says the acquisition of Mercantile and General Re, the UK reinsurer, helped boost the balance sheet but its profits were not consolidated in the latest figures. Gross premiums in Swiss francs rose by 11 per cent to SFr14.2bn but after adjusting for exchange rate movements there was a 3 per cent fall in local currencies.

The investment portfolios of both companies benefited from the growth of world stock markets. Swiss Re's investment result rose by 27 per cent to SFr3.31bn and its return on investment grew to 7 per cent. The group's overall return on equity increased from 12.7 per cent to 13.8 per cent.

Zurich has not disclosed the impact of its investment performance but says that investment results were "very strong". The growth in income from interest, dividends and realised gains exceeded the 33.3 per cent growth in investments to SFr114.7bn. Zurich's gross premiums written rose by 20.5 per cent to SFr31.9bn, but in local currency terms the growth rate dropped to 7.6 per cent, of which roughly half reflected the Kemper acquisition.

EUROPEAN NEWS DIGEST

Skanska launches shares redemption

Skanska, Sweden's largest construction group, yesterday launched a SKr5bn ($637m) redemption of shares as part of a previously-announced plan to hand SKr8bn-SKr10bn of excess cash back to shareholders. The company – one of several large Swedish corporations currently exploring share redemptions as a means of offloading surplus cash – said it would redeem one-tenth of its shares. The offer price was set at SKr400 a share, a substantial premium to yesterday's closing price of SKr346. A further transfer of capital to shareholders was likely next year, Skanska said.

At the same time, Skanska announced a decline in first-quarter pre-tax profits from SKr537m to SKr412m. The fall came in spite of an increase in sales from SKr9.8bn to SKr10.6bn, primarily attributable to growth in US operations. *Greg McIvor, Stockholm*

Eni in venture with Enel

Eni, the Italian state-controlled oil group, yesterday launched its campaign for the flotation of a third tranche of shares with the announcement that it had signed an agreement with Enel, the state electricity utility, to form a joint electricity venture. The deal envisages the pooling of Eni's electricity generating facilities with some of Enel's power generation assets.

The idea is to form a jointly-held company to be listed on the stock market to compete in the Italian electricity sector when it is eventually liberalised. With an initial generating capacity of 5,000MW, the joint company aims to become the second-largest Italian electricity generator after Enel.

Yesterday's announcement coincided with the start of Eni's campaign to sell another tranche of shares. The new offering is expected to be launched between June 23 and June 27. The government, which owns 69 per cent of the oil group, is expected shortly to announce the size of the latest offering, which is likely to involve a 15-17 per cent stake. IMI, the Italian credit institute, and Credit Suisse First Boston have been appointed global co-ordinators. *Paul Betts, Milan*

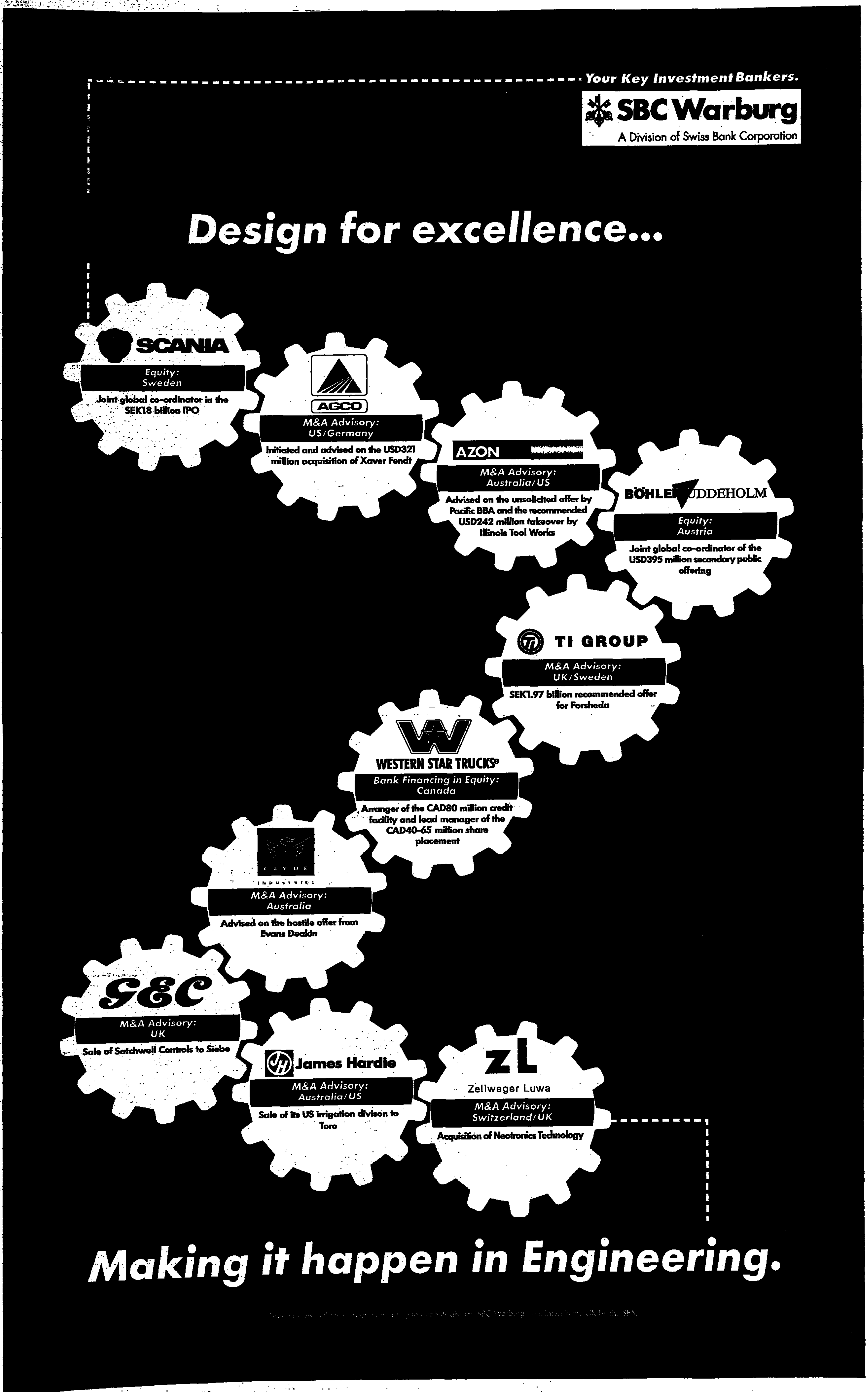
San Paolo names new head

Mr Luigi Maranzana was yesterday appointed the new chief executive of Istituto Bancario San Paolo di Torino, Italy's largest banking group, which is to be privatised this month. His appointment follows the resignation last week of Mr Dario Pasqua, the former chief executive, who stepped down to make way on the board for the bank's new core of stable shareholders. Mr Maranzana is currently the bank's managing director. *Paul Betts*

Cortefiel recovers

Strong sales growth enabled Cortefiel, the Spanish clothes store group, to stage a profit recovery in the financial year to the end of February, with a 20 per cent increase in net profits to Pta4.15bn ($28.4m). The group, which has undertaken an ambitious expansion programme in France and Germany, suffered a fall of almost 28 per cent in earnings the previous year.

Sales at its store chains, including the menswear specialist Springfield, rose almost 18 per cent to Pta61.69bn. Overall net turnover, including sales of clothing to other retailers, was up 15 per cent at Pta68.83bn. The company said the increase came largely from the opening of 51 new stores. *David White, Madrid*


Your Key Investment Bankers.
SBC Warburg
A Division of Swiss Bank Corporation
Design for excellence...
SCANIA
Equity: Sweden
Joint global co-ordinator in the SEK18 billion IPO
AGCO
M&A Advisory: US/Germany
Initiated and advised on the USD321 million acquisition of Xaver Fendt
AZON
M&A Advisory: Australia/US
Advised on the unsolicited offer by Pacific BBA and the recommended USD242 million takeover by Illinois Tool Works
BÖHLER UDDEHOLM
Equity: Austria
Joint global co-ordinator of the USD395 million secondary public offering
TI GROUP
M&A Advisory: UK/Sweden
SEK1.97 billion recommended offer for Forsheda
WESTERN STAR TRUCKS
Bank Financing in Equity: Canada
Arranger of the CAD80 million credit facility and lead manager of the CAD40-65 million share placement
CLYDE INDUSTRIES
M&A Advisory: Australia
Advised on the hostile offer from Evans Deakin
GEC
M&A Advisory: UK
Sale of Satchwell Controls to Siebe
James Hardie
M&A Advisory: Australia/US
Sale of its US irrigation divison to Toro
ZL
Zellweger Luwa
M&A Advisory: Switzerland/UK
Acquisition of Neotronics Technology
Making it happen in Engineering.

Sales abroad help VW advance 48%

By Graham Bowley
in Frankfurt

Shares in Volkswagen, Europe's biggest carmaker, surged yesterday after the German group said strong foreign demand and a more favourable exchange rate helped lift pre-tax profits 48 per cent in the first quarter.

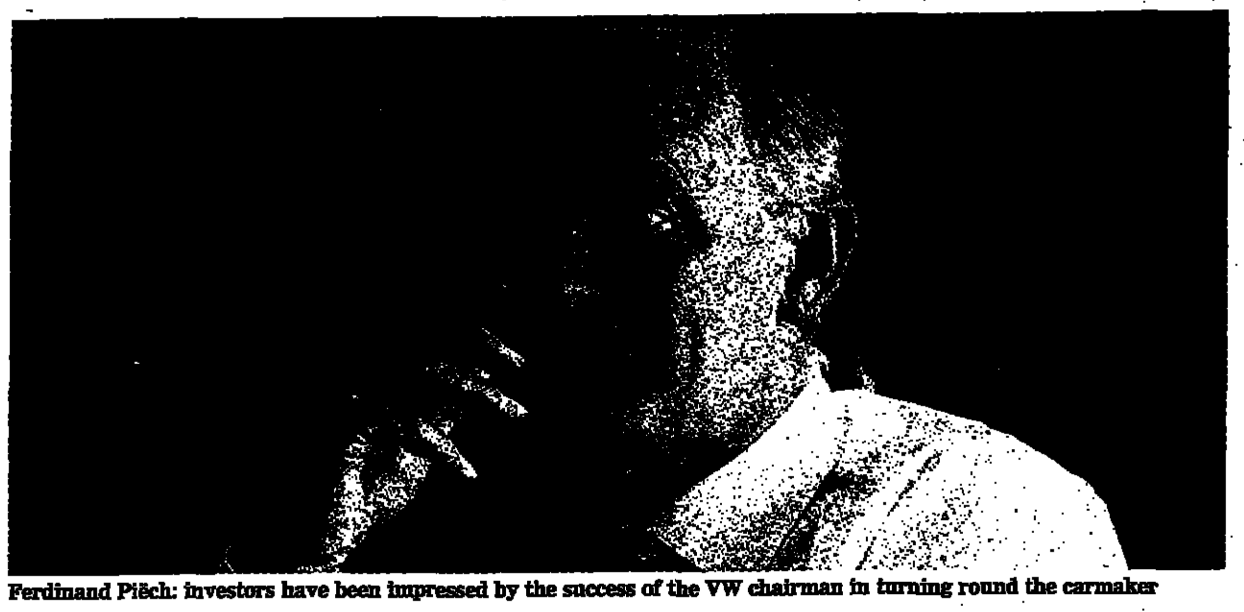
Net profits increased from DM116m a year ago to DM172m.

The strong start to the year prompted VW to predict another increase in profits in 1997, after record net profits of DM678m in 1996. "Provided economic conditions and the demand for automobiles remain steady, we expect better results in 1997 at both the parent and group levels," it said.

The announcements pushed VW shares sharply higher. At the close of screen trading, shares were up DM41.90, or 3.6 per cent, at DM1,200.

Sales increased 9.8 per cent in the first quarter to DM26.86bn. Sales in Germany fell 5.2 per cent to DM9.1bn but sales abroad rose 19.3 per cent to DM17.8bn.

VW has been one of the best performing stocks in the Dax index this year.



Ferdinand Piëch: investors have been impressed by the success of the VW chairman in turning round the carmaker

Investors have been impressed by the success of Mr Ferdinand Piëch, VW chairman, in turning round the carmaker in spite of a weaker German market.

He has managed to lift profits and maintain market penetration, at the same time as throwing off worries about alleged industrial espionage and corruption in the company's purchasing.

Mr Piëch has pursued a determined strategy which has attempted to differentiate between the group's four car brands; cut development costs, by reducing the number of engineering structures on which the different models are built; tighten control of spending; and boost productivity.

However, analysts warn that the group faces substantial launch costs – for its next-generation Golf and for the new Audi A6 models – as well as problems in maintaining product differentiation.

Deliveries to customers rose 9.6 per cent to reach 1,033,785 in the first quarter. The group's Skoda and Audi units recorded the strongest increases.

However, deliveries in Germany fell 4.9 per cent compared with the same quarter last year, to 233,954.

Sales in the US rose 8.7 per cent to 29,526 – its best sales result in seven years, VW said. "On account of the strong rise in the dollar rate, the import business remained lively [in the US]," it said.

VW said its first-quarter result would have been even better but for the Spanish truck drivers' strike in February.

Europe edges ahead in thin trading

GOVERNMENT BONDS

By Edward Luce in London and Jane Martinson in New York

European markets rose on very thin volumes, with the French OAT future in Paris trading fewer than 30,000 contracts – the lowest tally this year. US Treasuries, meanwhile, lost some of last week's gains in morning trading.

German bunds rose marginally on news that payroll figures to be released today will show a smaller-than-expected drop in unemployment for April.

The 0.5 per cent rise in industrial production for March released yesterday did little to alter the view that the German economic recovery remains anaemic. The June contract on the German 10-year bund future rose by 0.16 to close at 101.76 in Frankfurt. The markets in London were closed for a public holiday.

Spanish and Italian bonds also rose, making up for the fact that both markets had been closed on Friday when the US non-farm payroll data for April were released. The June contract on 10-year BTP futures rose by 0.34 to close at 128.18 on thin trading. The spread on Italian cash bonds tightened to 174 basis points over 10-year bunds. The Spanish bono future also gained ground, closing 0.45 higher than last Wednesday's close at 114.17.

French bonds rose slightly yesterday, partly in response to an opinion poll suggesting the likelihood of a centre-right victory in the parliamentary elections at the end of the month. The June contract on 10-year OAT futures closed 0.2 higher at 120.50 in Paris.

US Treasuries gave up some of the ground they had gained last week. In early trading the benchmark 30-year Treasury bond dropped ⅜ to 93⅞, while the yield returned above the 6.9 per cent barrier to stand at 6.905 per cent by mid-session.

The trend was repeated across the yield curve, with 10-year bonds yielding 6.680 per cent and two-year bonds yielding 6.255 per cent.

Analysts suggested the market was taking a breather after a raft of economic data and speculation about the impending budget deal had forced it much higher last week. The prospect of new supply from two auctions today and tomorrow also helped to damp sentiment.

Ms Janet Showers, at Salomon Brothers, said that a combination of holidays in the UK and Japan and a lack of fresh economic data had led to a quiet morning. She said that in contrast, last week had been abnormally busy with several important economic announcements. There are little data scheduled for release this week.

There was little surprise that the bond market had not reacted more strongly to the news of a Budget deal late on Friday. Mr Kevin Logan, senior market economist at Dresdner Kleinwort Benson, said: "People in general are sceptical about what goes on in Washington and there was very little detail about the budget."

The quarterly auction of three-year bonds takes place today, followed tomorrow by the 10-year auction.

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Northrop acquires IT group

By Christopher Parkes
in Los Angeles

Northrop Grumman, the US aerospace group, is to acquire Logicon, a defence information-technology specialist based in California, in an agreed stock-swap deal announced yesterday.

The deal is a further step in Northrop's strategy of reducing its dependence on military aircraft and sharpening its focus on electronic sensors and defence systems integration.

Logicon, which has annual revenues of $560m, will form the basis of a new IT division which will absorb much of Northrop's existing data systems business and have annual sales of almost $1bn.

It will be run by Mr Jack Woodhull, Logicon chief executive, who will remain in his current headquarters at Torrance, close to Northrop's Los Angeles base.

Northrop yesterday predicted annual revenue growth of more than 10 per cent for defence IT until well into the next century, and forecast that the deal would have minimum impact on the group's earnings per share this year.

No value was put on the merger, which is based on a formula by which Logicon shareholders will receive between 0.7 and 0.57 of a Northrop share for each Logicon unit they hold.

The deal represents a step forward for Northrop, which has been left behind in the merger-driven rush for growth in the US aerospace and defence industry.

Although it recently spent $3bn to acquire Westinghouse's defence electronics arm, the group is only a medium-sized operator in a sector dominated by Lockheed Martin, with revenues of about $30bn, and by Boeing and McDonnell Douglas, which are soon to merge.

Northrop's short-term aim is to raise annual revenues to more than $10bn by the end of the decade and to become a market leader in surveillance, precision-strike and advanced battle-management technologies, Mr Kent Kresa, Northrop chairman, said yesterday.

Huntington in $900m buy

Huntington Bancshares has agreed to acquire First Michigan Bank Corp in a transaction valued at about $900m, agencies report from Columbus, Ohio.

Huntington, which is based in Ohio and has assets of $21bn, said it would merge First Michigan's bank units into its lead unit, Huntington National Bank, following the merger agreement, which is expected to close late in the third quarter.

Under the terms of the merger, shareholders of First Michigan will receive 1.05 shares of Huntington Bancshares common stock for each First Michigan share.

Based on Huntington's closing price on Friday of $30, the exchange ratio represents a price of $31.50 for each First Michigan share.

"Upon completion of this transaction, Huntington will have approximately $6bn in assets in Michigan, making it our second largest market after Ohio," said Mr Frank Wobst, Huntington chief executive.

The merger is expected to result in annual cost savings of at least $19m, representing 15 per cent of First Michigan's expense base in 1998.

A pre-tax charge related to the merger of about $35m will be recognised in the quarter the merger is completed, Huntington said.

Subject to regulatory and shareholder approvals, the transaction is expected to close late in the third quarter of 1997.

First Michigan is based in Holland, Michigan.

Polish convertible bond issue

By Christopher Bobinski
in Warsaw

Poland's first convertible bond issue by a local financial institution starts its international presentation today in Zurich.

Bank Przemyslowo Handlowy is due to present the $100m issue to foreign investors, with Credit Suisse First Boston acting as adviser.

The proceeds of the eurobond are aimed at financing the purchase of the state-owned Powszechny Bank Kredytowy by a local financial grouping which includes the listed Polish Development Bank and Kredyt Bank, as well as the Warta insurance company.

The Polish financial grouping has offered to buy 50 per cent plus one share of PBK's equity. It is being supported by the European Bank for Reconstruction and Development, which has separately offered to buy a further 15 per cent. Originally, the Polish government asked bidders to purchase 65 per cent of PBK.

The local group is competing against Samsung, the Korean industrial conglomerate, which has said it is treating the purchase of the PBK as its "gateway into Poland".

However, Citibank, which carried out due diligence procedures at PBK, has failed to confirm that it has placed an offer for the bank. Final offers were due by the end of last month. HSBC is advising the government on the sale.

INTERNATIONAL NEWS DIGEST

Corning to sell kitchenware unit

Corning, the US manufacturer, yesterday announced plans to sell its cookware and dinnerware business, for which it is most widely known. The company, which has become increasingly dependent on optical fibre and other high-tech products, has been making items for the kitchen and the dinner table since 1915. Its brands include Pyrex, Corning Ware and Corelle.

The business, which had sales of $630m last year, has been struggling for years, and Corning has said for some time that it would consider selling it. The unit accounts for virtually all the sales and earnings of Corning's consumer products division. This showed net income of $38m last year, reflecting a rebound from earnings of just $10m the year before.

Mr Roger Ackerman, chairman, said the disposal, which follows the spin-off last year of the company's larger healthcare operations, would leave Corning with high-growth businesses in communications, advanced materials and environmental products. "There are the areas where we are best able to apply our materials and process technology capabilities and create value for customers and shareholders," he added.

The consumer businesses to be sold account for about 600 of the 6,000 people employed by the company in Corning, New York. The company said it would give preference to would-be buyers who promised to keep the division's headquarters in Corning, and who offered the unit's 3,600 workers unchanged pay and benefit levels.

Richard Waters, New York

OMV ahead in quarter

OMV, the Austrian energy and chemicals group, said yesterday that preliminary first-quarter earnings before interest and taxes rose from Sch945m a year ago to Sch1.02bn ($84m). The group, Austria's biggest industrial concern, said first-quarter sales were up from Sch17.77bn in the year-ago period to Sch21.45bn. "The start of the business year can be called successful," OMV said.

OMV said last month it expected 1997 earnings to be up on last year's level. For 1996, the group reported a 14.5 per cent rise in net profit to a record Sch1.98bn.

Reuter, Vienna

Chauvco may sell assets

Chauvco Resources, a Canadian oil company that expects to produce 43,500 barrels of oil equivalent per day in the second half of this year, said yesterday it could soon sell assets or merge with another group. Chauvco, which operates in Canada and Argentina and will soon begin producing in Gabon, has a market capitalisation of C$960m (US$694m).

However, the company says its current stock price does not reflect its value or growth potential. Mr Guy Turcotte, chief executive, said Chauvco would explore all possible transactions that maximise shareholder value.

The company, which has retained Salomon Brothers and RBC Dominion Securities in an advisory role, had not held negotiations with any other group, nor had it been approached by other groups, Mr Turcotte added.

Scott Morrison, Vancouver

Chaco to invest $86m

Chaco, the Bolivian hydrocarbons company controlled by Chicago-based Amoco, has unveiled plans to invest $86m this year in upgrading and expanding former state-owned oil and gas fields. Some $35m will go into repairs, development of existing wells and additional drilling; $19m into exploration; $7m on environmental projects; and $3m on computerisation.

Chaco is one of the two new units into which the upstream facilities of Bolivia's YPFB were divided before "capitalisation", Bolivia's unique privatisation mechanism, last December. Amoco outbid Spain's Repsol, offering a total capital injection of almost $307m in return for 50 per cent of the shares and a management contract. The other unit, Andina, went to an all-Argentine consortium made up of YPF, Perez Companc and Pluspetrol.

Bolivia is counting on dramatically increased output from the two badly undercapitalised oil and gas-bearing units to meet its contract to supply Brazil with a minimum of 8m cubic feet of natural gas a day from early 1999.

Mr Ted Winzeler, Chaco's head of exploration, said: "The huge Brazilian market will require the discovery of at least another 2,000bn cubic feet of gas in the next three years – a 35 per cent increase in existing Bolivian reserves."

Sally Bowen, Lima

Regent Pacific float priced at HK$2.62

By Louise Lucas in Hong Kong

Regent Pacific, the emerging markets investment house, yesterday priced its HK$447m (US$57.7m) Hong Kong stock market flotation at HK$2.62 a share.

The pricing puts the stock on a price/earnings multiple of 9.9 times last year's estimated earnings of HK$235m. A total of 170.5m shares are to be sold, representing about 18 per cent of the enlarged share capital. The issue includes an international tranche and private placement under rule 144A in the US. Some 25 per cent of the offering is to be distributed to the Hong Kong public.

Nomura International (Hong Kong) is sponsoring and lead-managing the issue. The underwriters have an over-allotment option requiring Regent Pacific to issue a maximum 31m additional shares in the event of heavy demand.

Proceeds of the issue will be used to expand business operations, particularly in eastern Europe, which is now the group's most active fund management market. Of the US$1.77bn under management or advised upon, US$1.085bn is in eastern European equity and debt funds.

Regent Pacific has earmarked up to US$20m to expand its eastern European corporate finance capability, and up to US$5m to finance a new domestic fund management company in Russia with a local partner.

The group also plans to spend US$15m on acquiring a European finance house and up to US$10m on expanding its eastern European brokerage.

Mr Jim Mellon, chairman and chief executive of Regent Pacific, said he was confident that investors would be attracted by the 45 per cent return on equity achieved by the group in each of the past four years.

Dealing in the company's shares is due to start on May 19.

Regent Pacific is forecasting interim net profits of HK$200m for the six months to September 30.

CTI shares suspended

By Louise Lucas

Shares in China Travel International, the mainland-backed listed travel, tourism and investment group, were suspended yesterday before an acquisition announcement. Analysts believe the target is Sun Fook Kong, a Hong Kong construction company which also had its shares suspended yesterday.

The CTI acquisition comes amid a spate of activity among the red-chips – mainland-backed companies listed in Hong Kong – which have been cashing in on strong investor sentiment to raise funds. Proceeds have typically been used to purchase assets from mainland parents, usually on terms favourable to the Hong Kong units.

CTI itself has been no laggard. In January it raised HK$2.5bn (US$322.7m) through a share placement, just six months after a HK$792m issue to its parent company, and in March it paid HK$487m for an effective 20 per cent stake in Citybus Group, one of the territory's four franchised bus companies. Other purchases in the past year included Hong Kong's Metropole Hotel (bought from its parent) and 51 per cent of a China power station.

The company has seen its share price soar some 80 per cent over the past six months, but its recent track record of raising far more cash than it spends and its spiralling price/earnings ratio have left some fund managers wary of the stock.

News of the acquisition came as CTI reported a 33.8 per cent rise in net earnings, from HK$197.65m in 1995 to HK$264.45m last year.

Rescue begins at Thai bank

By Ted Bardacke in Bangkok

Thailand's development bank, the Industrial Finance Corporation of Thailand, this week begins the Herculean task of restoring normality to the Bangkok Bank of Commerce, the mid-sized commercial bank which almost collapsed last year from more than $3bn in bad debts.

Under a taxpayer-guaranteed rescue plan, which received a series of government and shareholder approvals last week, IFCT will manage the BBoC in exchange for an 18 per cent share of the bank's capital and the right to buy up to 51 per cent of the bank over seven years at pre-determined prices; an annual management fee of Bt36m ($1.38m); and a share of the profits from new business.

Analysts say the deal is virtually risk-free for IFCT, which successfully rescued the First City Investment group in the early 1990s. However, the foreign investors that own almost half of the company, in league with various Thai government agencies, may object if IFCT decides to subscribe to the capital issues the BBoC is expected to offer within the next 18 months.

The central bank, the largest shareholder in the BBoC, is taking on the biggest political risk by buying about Bt60bn of the bank's estimated Bt83bn in bad debts for Bt48bn, a discount of just 20 per cent. Analysts say this is generous given that much of the money lent by the BBoC's previous management, who are facing criminal charges, was for stock market speculation.

Proton sees own vehicle by 2000

By Haig Simonian, Motor Industry Correspondent, in Kuala Lumpur

Proton, the Malaysian "national" carmaker set up with technical assistance from Mitsubishi Motor, of Japan, should be able to build its first independently-developed vehicle before the end of the century.

Mr Saleh Sulong, chairman of DRB-Hicom, which controls Proton, said the new model was one of a number of innovative cars the company was planning. Since Proton built its first vehicle in 1985, output has climbed to almost 200,000 units last year.

However, Mr Saleh admitted that the new model would still depend on foreign technology for its engine and gearbox. Local analysts believe it will not be until early next century that Proton – the brainchild of Dr Mahathir Mohamad, Malaysia's prime minister – will have the expertise required to develop its own engines.

Reuter

Saleh Sulong: foreign technology still needed for engines

Mr Saleh said the government had encouraged Proton to co-operate with Petronas, the Malaysian oil group, to develop engines.

It was to help make the "quantum leap" to technological independence from Mitsubishi that Proton bought last October a controlling stake in Lotus, the UK sports car and auto engineering group, said Mr Tengku Mahaleel Tengku Ariff, Proton chief executive.

Lotus would play an important part in devising the new vehicle, he added.

Mr Saleh said Proton would turn to either Mitsubishi, or possibly Citroën of France – with which it also has a technology transfer agreement – for the engines for its first independently-developed car, pending the availability of its own power units.

The company is also believed to be considering a deal with a US carmaker.

ASIA-PACIFIC NEWS DIGEST

Beijing North Star to raise HK$1.5bn

Beijing North Star, the property arm of Beijing's municipal government, which is seeking a listing on the Hong Kong Stock Exchange, plans to raise some HK$1.48bn (US$191m) when it comes to market later this month. The company is to issue 614.8m H-shares – the Hong Kong-listed stock of former mainland state-owned enterprises – at HK$2.40 each. The pricing puts the shares on a price/earnings multiple of around 13.5 times on a fully diluted basis, according to the company.

The public flotation represents 34.6 per cent of North Star's enlarged share capital, and could be bigger if an over-allotment option – providing for an additional 92.22m shares – is exercised. HSBC Investment Bank Asia is sponsoring the issue.

The North Star offering received an early vote of confidence from the New World group, the Hong Kong property developer, which is to take a 9.6 per cent stake. Dealing in North Star shares is expected to begin on May 14. Proceeds will be channelled into the purchase of land and project development, as well as paying down debt.

Louise Lucas, Hong Kong

Hindalco Industries down

Hindalco Industries, India's largest private sector producer of aluminium, suffered a fall in profits in 1996-97. Net profit of the company, the flagship of the Aditya Birla group, fell 2.5 per cent from Rs4.01bn in 1995-96 to Rs3.9bn ($111.4m) in the year to March. Net sales fell from Rs12.5bn to Rs11.5bn.

The company said the fall followed a "tremendous" drop in international aluminium prices from $2,146 a tonne in January 1995 to $1,286 a tonne in October 1996. Profits were also hit by power supply disruptions, rising raw material and transportation costs, and a planned plant shutdown for technological upgrading.

Earnings per share for Hindalco, after taking into account a bonus issue of shares, were Rs52.50 compared with Rs80.79 in 1994-95. The company declared a dividend of Rs4.5, the equivalent of Rs6.5 before the bonus issue. The dividend for 1994-95 was Rs6 a share.

Tony Tassell, Bombay

Strong rise in ICICI profit

Industrial Credit and Investment Corporation of India has reported a strong rise in profit for the year to March following its merger with an associate. ICICI, which merged early in 1997 with Shipping Credit and Investment Corporation of India to create an institution with assets of more than $10bn, lifted net profits 62 per cent in 1996-97 to Rs7.7bn ($220m). ICICI said net profit in its pre-merger incarnation would have risen 26 per cent to Rs5.9bn. The company added it had booked capital gains of Rs1bn during 1996-97 on the sale of shares in small to mid-cap companies.

Tony Tassell

COMPANIES AND FINANCE: FALL-OUT FROM BRE-X

Fiasco casts cloud over Toronto mining sector

The Bre-X fiasco has sent shock-waves through Canada's mining industry and securities markets just as Toronto appeared to be emerging as the world's premier mining finance centre.

That reputation is now under a cloud, as investors and mining experts wonder how Bre-X Minerals could within two years have catapulted itself from a small exploration company into one of the most highly-valued shares on the Toronto Stock Exchange based on what has turned out to be a massive fraud.

Misgivings about the entire junior mining sector were evident yesterday, as shares of small gold exploration companies tumbled on the Toronto Stock Exchange, even as their bigger counterparts gained ground.

For instance, Yamana Resources slid 45 cents to C$2.90 in early trading. Caledonia Mining lost 30 cents to C$1.80. By contrast, Barrick Gold, one of the biggest gold producers outside South Africa, gained 55 cents to C$31.95. Yamana has been forced to scrap a proposed takeover and Caledonia to withdraw a financing since the authenticity of the Busang deposit was first questioned by New Orleans-based Freeport-McMoRan Copper and Gold in late March.

"The problem for Canada is image," said Mr Bill Mackenzie, vice-president at Fairvest Securities, a Toronto firm that acts as a corporate governance watchdog for institutional investors.

The Toronto Stock Exchange and the Ontario Securities Commission, Bre-X's two main regulators, have faced intensifying scrutiny since Freeport first cast doubt on Bre-X's spectacular drilling results.

According to Mr Philip Anisman, a Toronto securities lawyer, "[the Bre-X affair] suggests that securities regulators should be quicker to investigate when there are suggestions of impropriety in high-value, speculative companies."

Several red flags were raised before Freeport smelled a rat. Local newspapers said last autumn Mr David Walsh, Bre-X chairman, and other insiders sold millions of dollars worth of shares before the news was released that Indonesia had cancelled a mining licence.

'Securities regulators should be quicker to investigate when there are suggestions of impropriety in high-value, speculative companies', says Philip Anisman, a Toronto securities lawyer

Fairvest last year urged clients to vote against shareholder rights and employee stock option plans put in place by Bre-X and its parent, Bresea Resources. The options plan covered a quarter of Bre-X's outstanding shares.

The TSE is under fire on several fronts. It faces criticism for including such a speculative share as Bre-X in its benchmark TSE-300 index. Indices such as the TSE-300 have become important investment vehicles in the past decade, especially for investors seeking to minimise risk.

Its decision to halt trading in Bre-X for extended periods has also angered investors. Trading was halted all day yesterday but the TSE declined to give reasons.

The ripple effects of Bre-X are likely to be felt well beyond Canada as mining companies worldwide seek to repair the damage to their industry. Mr Michael Dudas, analyst at UBS Securities in New York, said the Bre-X saga would redefine the way mining companies raise capital, explore promising ore bodies, and report and verify their drilling results.

A growing proportion of mining exploration in recent years has been carried out by small companies headed by entrepreneurial geologists and mining promoters. They have been especially active in developing countries in south-east Asia, Latin America and Africa.

After making a discovery, the small companies have typically turned to industry giants with the financial resources and expertise to turn an exploration site into a producing mine.

Barrick Gold, for instance, paid US$790m last August for Arequipa Resources, a Vancouver-based group with exploration properties in Peru. A mine is due to come into production at one of the properties, known as Pierina, in less than three years.

However, deals such as these could become more rare as outside investors put less faith in junior companies in the wake of the Bre-X scandal.

Mr John Willson, chief executive of Placer Dome, the big Vancouver-based gold producer, told his company's agm last month that "recently, the juniors have been able to raise all the money they need and do their own thing. At least for a while, it will be difficult for the juniors to raise money on the strength of a few drill holes." He added that Placer would now be more selective about what it took on, and more inclined to rely on its own exploration team.

Another Placer official said: "It is obvious that if we can find by ourselves good quality reserves at US$36 an ounce, then that will beat good quality reserves purchased from another company at US$130 an ounce."

The cautious mood has been reinforced by the depressed price of bullion, currently just above US$340 an ounce.

Mr Dudas predicted that the junior sector's fortunes would pick up if and when the gold price rebounds. "A rising tide lifts all boats," he noted. "If the gold price were to get back to its average over the past three years, people would start looking at these things again."

First, however, senior mining companies and other investors will want greater reassurance that the proposals brought to them are based on genuine results. According to Mr Dudas, the misguided Busang gold rush "will make the industry more united worldwide in how they report and distribute drilling results to investors".

Bernard Simon

■ **THE MOOD IN JAKARTA** – By Manuela Saragosa

Exploration groups face tighter controls

Indonesia's authorities will take legal action if its laws have been violated in the Busang affair, warned Mr Ida Bagus Sudjana, the mines and energy minister.

"The government, of course, will take strong measures," he said. Before any action was taken, he added, punitive measures would be discussed with President Suharto, who has an indirect involvement in Busang through his links to Nusamba, the holding company for the local joint-venture partners.

Indonesian interests, including the government's stake, amounted to 40 per cent but no Indonesian parties had injected cash into the project.

The government is widely expected to banish Bre-X Minerals' employees and management from the country. Three Philippine employees of Bre-X who had important roles in the operations at the Busang site are no longer in the country, Bre-X confirmed.

Meanwhile, Nusamba said it would be notifying Bre-X that it was pulling out of the project.

Nusamba, controlled by Mr Mohamad Hasan, one of President Suharto's closest advisers, wrestled its way into the Busang joint venture after a four-month political battle for control of the project.

While Strathcona's findings were not completely unexpected, many mining executives expressed astonishment at the apparent size of the fraud.

"It is criminal," said Mr Widartoio, executive secretary of the Indonesian Mining Association in Jakarta.

The findings of the Strathcona report are likely to prompt Indonesia's authorities to tighten control over the activities of hundreds of exploration companies operating in resource-rich areas of the archipelago in an attempt to avoid similar embarrassments.

"This is the first time something like this has happened in the history of Indonesian mining," said a former high-ranking senior mining official. "It would not be fair to condemn the government. We rely on the goodwill of these exploration companies."

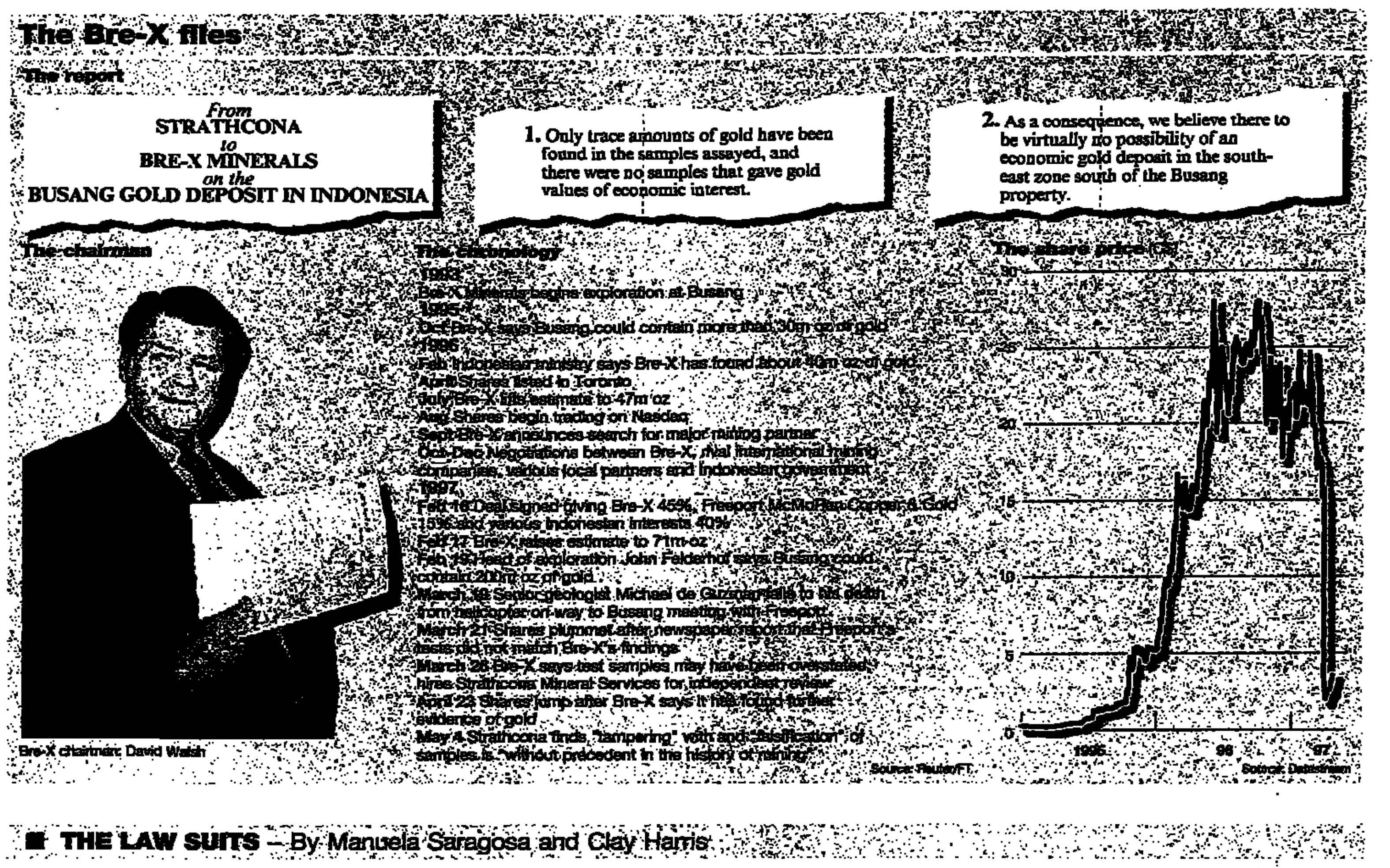
The repercussions will be felt by local and foreign exploration companies. Last month, after long delays, 65 mining contracts to prospect for minerals ranging from gold to copper and nickel were finalised with the Indonesian government.

Most of these were Canadian exploration companies which entered Indonesia in droves after the initial encouraging estimates Bre-X provided about the size of the Busang deposit.

However, the government will have to weigh the precautions in supervising exploration companies against maintaining an environment that attracts foreign investment, which has always been the driving force behind new mineral discoveries in the country.

Indonesian authorities have already become more heavy-handed in their intervention in the mining sector: they have delayed awarding a licence to Newmont Mining, of the US, to proceed with the US$1.9bn construction of its Batu Hijau deposit on the eastern Indonesian island of Sumbawa.

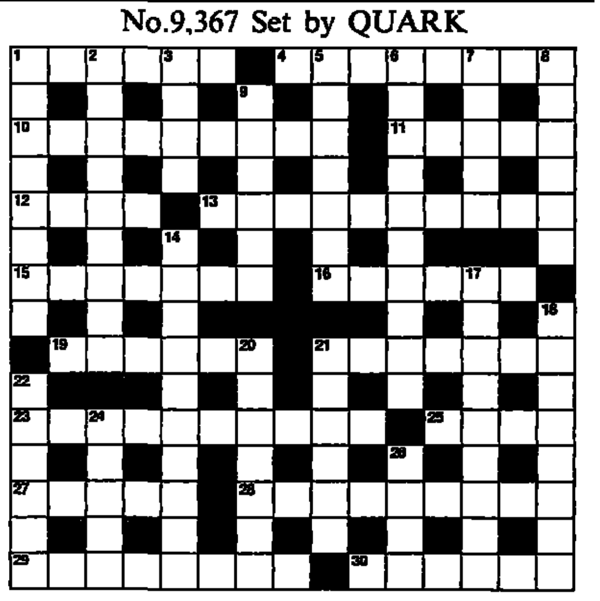
Now that Busang is no longer a contender in the gold mining sector, Batu Hijau is set to be the country's second largest gold mine, with an estimated 14.7m ounces of gold, after Freeport McMoRan & Gold's operations in Irian Jaya.



JOTTER PAD

CROSSWORD

No.9,367 Set by QUARK



ACROSS

1 *Reject the left-overs* (6)
4 The extent of the RAF's craft (8)
10 Unusual neckwear found in the crackers? (9)
11 One with tact rearranged upper room (5)
12 Praise and clap – but not the first three? (4)
13 Plant getting a break as hunt reassembles (10)
15 Disgusting row about the order (7)
16 Refusal that's partly explained on the way back (6)
19 This could be to carry around a half of coke? (6)
21 Minutely examine cut (7)
23 The chap's part of the body (an association) (10)
25 One's old, perhaps, yet one admired (4)
27 Drink deep? (5)
28 Ground in France set in a hollow for nuclear weapon? (9)
29 To bring to light, in a word, is interesting (8)
30 Moral defect leading to being drunk (6)

DOWN

1 *Disagreeable fish causing irritation* (8)
2 Pet one fancied above the rest (9)
3 Well-prepared soil in store for 28? (4)
5 Flat spin? I'd collapse after one (7)
6 Indistinct photo shows it in a singer's recollection (10)
7 Slope of ground between wickets (5)
8 Precise way to be most pleasant (6)
9 One not in a union (6)
14 Show contempt? One can, if superior (4,4,2)
17 Before lunch men tend to work for change in constitution (9)
18 Weapon fired when set up in fight (8)
20 Lodge outside university for the rest (7)
21 Tiny upset by American lawyer is a little delicate (6)
22 Provide a fellow with a place to go over (6)
24 The deposit is not so much to retain the ring (5)
26 Unwritten description of choir's work church put out (4)

Solution to Saturday's prize puzzle on Saturday May 17.
Solution to yesterday's prize puzzle on Monday May 19.

■ **THE LAW SUITS** – By Manuela Saragosa and Clay Harris

American lawyers strike a rich seam

Because there is little gold at Busang, lots of it is likely to end up in the pockets of North American lawyers.

The independent audit by Strathcona Mineral Services, which found unprecedented tampering and falsification of samples from the gold deposit in the Indonesian part of Borneo, is set to spur a new flurry of law suits and provide additional ammunition for those already filed in Canada and the US against Bre-X Minerals, the Calgary-based exploration company.

Some seven class-action law suits have been filed by shareholders in the US in the past six weeks and another in Canada, while a further suit is understood to be pending in Texas in an attempt to recoup US$4bn-$5bn, Bre-X's approximate market value during its peak in the middle of 1996.

The Indonesian government also said it was mulling taking legal action against Bre-X, which until the report yesterday still professed its belief that its find at Busang in the province of East Kalimantan was the world's richest gold deposit.

The sheer size of the damages being sought ranks the Busang affair among the biggest financial scandals in recent history, such as the collapses of Bank of Credit and Commerce International and Barings, and Sumitomo Corporation's misadventures in copper trading.

Two of the class action suits name two other companies which calculated Busang's resource base – Kilborn and its Indonesian unit. Another also targets Kilborn's parent company, SNC Lavalin.

Questions have also been raised about J.P. Morgan, the US bank which acted as financial adviser to Bre-X, and the exploration company's accountants, the US firm Peat Marwick, but to date neither has been named in a lawsuit.

J.P. Morgan took on Bre-X Minerals as a client in September last year after one of its analysts visited the Busang property in July 1996 and told a Canadian newspaper the site could contain more than three times the 47m ounces of gold Bre-X estimated Busang contained at the time.

The involvement of companies such as Kilborn and J.P. Morgan is seen as having lent credibility to Bre-X Minerals.

The sheer size of the damages being sought ranks the Busang affair among the biggest financial scandals in recent history

Baker & Botts, the Houston-based law firm, initiated the first class-action suit against Bre-X on March 28, two days after Bre-X shares crashed on a report that independent auditors believed the size of the deposit had been "overstated" because of "invalid" sampling.

The firm is representing more than 100 shareholders, many of them individuals who made up the bulk of Bre-X's shareholders.

Bre-X fever spread widely in Canada and the US. In St Paul, Alberta, a farming town 200km north-east of Edmonton, as many as 100 of the 5,000 residents invested in Bre-X.

At one point, half a dozen of them were paper millionaires based on their Bre-X holdings. Multiplied by the hundreds, shareholders' disappointment at losing this windfall wealth – and possibly their initial investment as well – is fuelling the demand for legal retribution.

The Baker & Botts suit names Bre-X and its senior management among the defendants accusing them of "fraudulent and wrongful activities".

The suit says that this started when they "convinced the world that Bre-X owned 90 per cent of a massive gold deposit, perhaps the largest ever discovered", and that they inflicted a "multi-billion dollar fraud on the investing public".

Following the filing by Baker & Botts, other lawsuits have been instigated in quick succession.

US COMMODITIES PRICES

BASE METALS

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	111.80	+0.10	111.90	110.90	692	5,235
Jun	111.20	+0.30	111.40	110.30	91	2,665
Jul	110.45	+0.20	110.60	109.70	4,577	23,510
Aug	108.55	+0.25	108.30	108.30	182	1,382
Sep	106.95	+0.20	105.80	106.30	538	5,259
Oct	105.40	−0.10	105.30	105.10	177	965
Total					6,783	51,503

PRECIOUS METALS

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	343.0	+2.7	342.4	342.4	–	–
Jun	344.3	+2.7	344.8	341.4	22,989	76,651
Aug	346.9	+2.7	347.5	344.5	254	18,314
Oct	349.5	+2.7	348.9	348.9	175	6,309
Dec	352.3	+2.7	352.6	349.6	56	21,830
Feb	355.1	+2.8	352.8	352.8	373	4,707
Total					8,798	167,364

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	373.1	+2.0	373.5	369.0	750	12,745
Oct	374.6	+2.0	374.0	371.5	6	2,833
Jan	376.8	−1.0	–	–	–	1,180
Apr	379.3	+2.0	–	–	–	14
Total					756	16,772

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	157.90	+1.00	158.50	156.00	232	6,455
Sep	157.65	+1.00	158.00	157.65	45	2,695
Dec	158.15	+1.00	–	–	–	326
Total					277	9,478

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	472.6	+4.0	473.5	471.0	157	933
Jul	476.8	+4.0	479.0	472.0	8,623	57,277
Sep	481.7	+4.0	482.5	479.0	240	5,367
Dec	488.9	−0.1	490.0	487.0	36	7,309
Jan	491.2	+4.0	492.0	492.0	3	18
Mar	496.6	+4.0	488.0	488.0	1,070	7,346
Total					11,509	85,219

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	19.63	+0.03	19.88	19.57	60,812	92,442
Jul	19.71	+0.02	19.91	19.64	22,567	52,546
Aug	19.73	+0.03	19.88	19.66	6,122	29,863
Sep	19.73	+0.03	19.85	19.66	2,117	16,738
Oct	19.75	+0.05	19.85	19.69	1,152	15,925
Nov	19.84	+0.14	19.87	19.70	545	13,915
Total					100,380	390,729

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	53.20	+0.18	53.75	52.85	20,686	37,065
Jul	53.35	+0.15	53.90	53.00	6,613	28,118
Aug	53.95	+0.25	54.35	53.70	1,382	14,185
Sep	54.85	+0.45	55.05	54.45	252	8,285
Oct	55.50	+0.40	55.70	55.20	308	8,378
Nov	56.25	+0.45	56.40	56.15	312	6,986
Total					32,763	135,278

■ NATURAL GAS NYMEX (10,000 mmBtu, $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.220	−0.047	2.290	2.210	15,408	40,538
Jul	2.260	−0.029	2.315	2.245	8,284	25,799
Aug	2.255	−0.027	2.330	2.240	2,372	16,790
Sep	2.240	−0.035	2.290	2.235	2,245	14,277
Oct	2.265	−0.025	2.235	2.260	1,885	16,438
Nov	2.375	−0.015	2.390	2.360	715	7,501
Total					39,389	202,403

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	60.75	+0.23	61.25	60.20	21,785	50,236
Jul	59.80	+0.21	60.30	59.40	6,456	17,513
Aug	59.00	+0.41	59.40	58.80	908	7,343
Sep	58.00	+0.61	58.25	57.65	92	3,420
Oct	56.30	+0.71	56.30	55.90	103	2,384
Nov	55.65	+0.81	55.65	54.95	10	1,404
Total					29,389	89,227

GRAINS AND OIL SEEDS

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	405.25	−1	410.50	404.00	1,547	1,186
Jul	411.25	−5.25	419.50	410.00	17,920	60,552
Sep	417.25	−4.75	424.00	415.00	1,772	13,618
Dec	427.25	−5.75	434.50	425.50	1,659	15,297
Mar	429.50	−4.5	434.00	425.00	164	1,024
May	406.00	−2	–	–	10	15
Total					23,069	91,928

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	293.00	−1.75	297.25	292.00	10,756	20,860
Jul	291.25	−1.50	296.25	290.00	35,144	138,330
Sep	274.75	−4.00	281.00	273.50	2,067	25,121
Dec	272.50	−3.00	278.25	271.25	12,727	108,894
Mar	277.25	−3.00	282.25	276.00	207	10,296
May	281.50	−2.50	281.50	281.50	20	615
Total					61,081	308,883

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	893.00	+5.5	902.00	884.00	4,375	8,154
Jul	889.50	+4	899.00	880.00	50,204	104,587
Aug	859.00	−1.5	868.00	855.00	4,230	18,645
Sep	764.00	−2.5	774.50	762.00	1,285	8,031
Nov	703.50	+2	709.00	701.00	9,038	46,854
Jan	706.50	+1.5	713.00	706.00	259	3,189
Total					69,400	190,974

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	24.96	−0.01	25.25	24.80	2,584	1,854
Jul	25.18	−0.15	25.65	25.07	9,904	51,392
Aug	25.25	−0.14	25.65	25.20	1,907	13,078
Sep	25.28	−0.15	25.65	25.25	1,444	7,029
Oct	25.24	−0.15	25.60	25.28	1,021	7,305
Dec	25.39	−0.16	25.79	25.38	2,306	19,324
Total					19,150	101,08

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	297.2	+3.4	297.7	292.3	4,309	13,229
Jul	289.8	+2.2	291.6	285.0	14,942	49,758
Aug	275.7	+0.7	278.5	273.0	1,891	14,345
Sep	257.0	−0.2	261.0	256.0	1,032	8,455
Oct	232.5	+1.5	234.5	231.5	638	9,659
Dec	222.1	+0.3	224.2	222.0	2,439	17,927
Total					25,743	118,318

SOFTS

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1374	−6	1388	1377	88	208
Jul	1385	−6	1401	1374	5,892	32,441
Sep	1409	−8	1425	1403	721	13,549
Dec	1441	−4	1443	1435	694	18,379
Mar	1469	−4	1481	1475	188	19,988
May	1489	−4	1498	1498	364	8,553
Total					7,586	95,192

■ COCOA (ICCO) (SDR's/tonne)

May 2	Price	Prev. day
Daily	1112.85	1116.80

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	250.90	−1.85	255.00	245.00	415	1,276
Jul	218.50	−4.40	224.50	214.50	6,315	15,830
Sep	194.65	−3.05	200.00	192.50	2,871	7,853
Dec	172.65	−2.75	176.80	171.50	719	4,494
Mar	158.40	−2.00	163.00	158.25	198	1,776
May	152.00	−1.00	155.50	152.00	14	263
Total					10,534	31,650

■ COFFEE (ICO) (US cents/pound)

May 2	Price	Prev. day
Comp. daily	163.15	155.38
15 day average	147.44	145.67

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	10.79	+0.09	10.86	10.78	18,190	75,644
Oct	10.66	+0.06	10.71	10.65	4,984	39,273
Mar	10.64	+0.04	10.68	10.64	2,844	23,032
May	10.61	+0.03	10.64	10.61	314	5,306
Jul	10.54	-	10.62	10.58	139	2,557
Oct	10.53	+0.02	–	–	25	561
Total					26,808	146,823

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	70.28	−0.32	70.80	70.50	24	131
Jul	71.80	−0.50	72.95	71.50	4,360	41,354
Oct	73.75	−0.18	74.20	73.60	364	2,769
Dec	74.82	−0.11	75.25	74.55	1,438	24,010
Mar	76.07	−0.08	76.25	75.85	141	3,231
May	76.70	−0.05	76.85	76.50	44	768
Total					6,498	73,832

Softs continued

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	73.35	+0.25	74.60	73.15	367	867
Jul	74.90	−0.80	76.80	74.75	1,338	17,120
Sep	77.80	−0.70	79.45	77.65	138	6,242
Nov	80.55	−0.45	81.95	80.50	45	2,926
Jan	83.15	−0.60	84.20	83.50	134	1,283
Mar	85.55	−0.55	86.50	86.00	25	823
Total					2,023	29,400

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

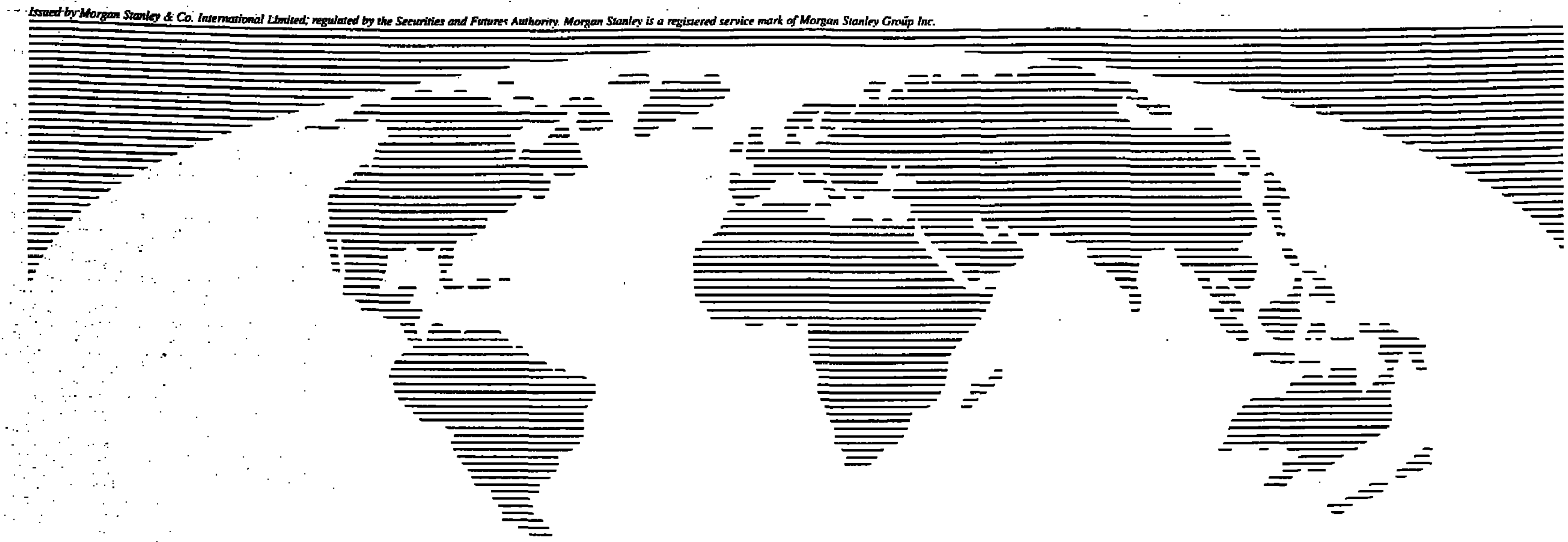
	Sett Price	Day's change	High	Low	Vol	Open int
Jun	65.425	−0.05	65.650	65.200	5,845	37,550
Aug	65.400	+0.05	65.650	65.225	2,527	26,879
Oct	68.850	−0.225	69.125	68.800	1,163	16,583
Dec	70.650	−0.1	70.900	70.575	426	8,503
Feb	71.075	−0.125	71.375	71.050	302	5,245
Apr	72.975	−0.25	73.300	72.850	49	1,242
Total					10,312	95,922

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	83.500	−0.5	83.700	82.700	4,301	18,531
Jul	84.300	−0.5	84.700	83.600	1,776	6,309
Aug	82.350	−0.25	82.400	81.550	611	6,009
Oct	75.225	−0.4	75.475	74.550	531	5,213
Dec	72.300	−0.55	72.750	71.675	217	3,292
Feb	70.950	−0.6	71.050	70.500	14	1,116
Total					7,483	41,276

■ PORK BELLIES CME (40,000lbs; cents/lbs)

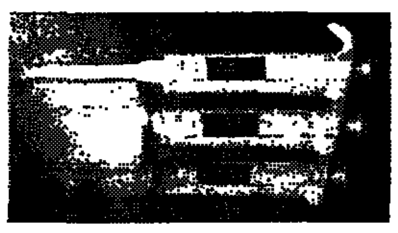
	Sett Price	Day's change	High	Low	Vol	Open int
May	86.500	−1.4	87.000	85.450	632	980
Jul	87.700	−1.15	88.000	86.550	2,008	6,679
Aug	86.450	−1.3	87.100	86.175	249	1,504
Feb	73.700	−0.9	75.900	73.160	43	906
Mar	72.100	−1.95	74.000	73.800	2	10
Total					2,934	9,404



GLOBAL REACH ***IN-DEPTH CAPABILITIES*** ***LOCAL INSIGHT*** ***INDUSTRY EXPERTISE***

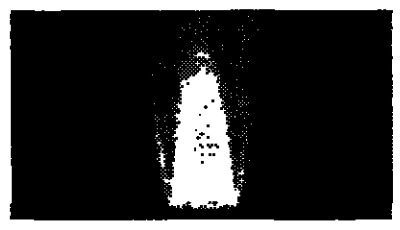
UNITED KINGDOM

Life Sciences International



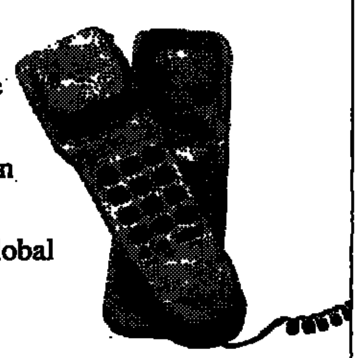
Thermo Instrument Systems acquired Life Sciences International for £236 million through a recommended public offer to enhance its presence in the laboratory products market. We acted as financial advisor to Life Sciences on this transaction.

The Energy Group



The Energy Group was de-merged from its parent company, Hanson, for approximately £2.9 billion. We acted as U.S. advisor to The Energy Group, and assisted the Company in successfully stabilising its U.S. investor base.

COLT

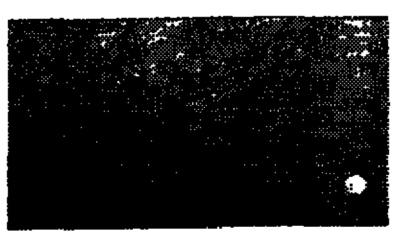


COLT Telecom Group PLC — a provider of competitive local telecommunications services — raised $314 million to help fund its European expansion. We acted as sole global coordinator and joint sponsor, completing the first-ever simultaneous initial public and high yield offerings for a European company.

BBA Group

BBA acquired Corovin from Stoehr for a total consideration of DM178 million as part of its strategy to develop and grow its core non-wovens business. We acted as financial advisor to BBA; our local and industry knowledge helped BBA to prevail in a competitive auction process.

Entergy



Entergy's £1.2 billion recommended cash offer for London Electricity will further its strategy of becoming a global energy company. We acted as lead financial advisor to Entergy on the public offer to London Electricity shareholders.

Siebe

Siebe acquired Satchwell Controls from The General Electric Company for £80 million to enhance its position in the European building automation systems market. We acted as financial advisor to Siebe on this transaction.

MORGAN STANLEY

Beijing Bombay Chicago Frankfurt Hong Kong Johannesburg London Los Angeles Luxembourg Madrid Melbourne Menlo Park Milan Montreal Moscow New York Paris Philadelphia San Francisco Seoul Shanghai Singapore Sydney Taipei Tokyo Toronto Zurich

Rewrite for Mr Holland's opus

Alice Rawsthorn peers into the uncertain future facing Boosey & Hawkes

Brendan Corr

Top brass: Boosey, and Richard Holland, hope a glamour-stock investor will take a shine to the company

It must be every executive's nightmare, and last week it happened to Mr Richard Holland, chief executive of Boosey & Hawkes, when he was told that its largest shareholder was up for sale, thereby putting Boosey into play.

The board of Boosey, which is best known as a musical instrument manufacturer, but also owns one of the world's largest classical music publishing catalogues, had known for some time that changes were afoot at Carl Fischer, the US music publishing company which owns 45.3 per cent of its equity and has been its principal investor since the 1960s.

Mr Walter Connor, former president of Fischer and non-executive chairman of Boosey, died last year and his heirs have since discussed selling the business. On Wednesday, the Fischer board asked Crédit Suisse First Boston to find a buyer. Fischer's new owner would then be obliged by London stock-market regulations to bid for the rest of Boosey's shares, including an 8.2 per cent stake controlled by the US company's employee pension fund.

Through no fault of its own, the Boosey board has seen its business put up for sale, in circumstances that leave it with no control over the choice of future proprietor.

In theory, Boosey could bid for Fischer, which is a smaller company, and stage an institutional placing of the latter's stake. But in practice it is unlikely to be able to, as Fischer's shareholders would clearly prefer to sell to an external bidder willing to pay a premium to control Boosey.

Mr Holland did his best to be sanguine about Boosey's dilemma. He admits that his preferred option would be for Boosey to retain its independence as a publicly quoted company, while accepting that an outside bid is possible.

A bid would end nearly 70 years of independence since 1930, when Boosey & Co, founded in the 1760s as a London sheet music library, merged with Hawkes & Son, which was established in 1867 and owned a rival library and a musical instrument factory.

The Boosey & Hawkes of today owns the music publishing rights to works by such 20th century composers as Stravinsky, Rakhmaninov, Górecki and Prokofiev. It also makes brass, woodwind and string instruments ranging from Buffet Crampon flutes, and the "Beatle Bass" guitar, to Rico reeds.

After a bruising period of losses in the mid-1980s, Boosey rebounded to report its eighth consecutive year of profits growth in 1996, when pre-tax profits rose by 25 per cent to £7.7m on sales 8 per cent higher at £94.4m.

Robust though Boosey's business may be, its mix of interests is so idiosyncratic that it may be difficult for Fischer to find a buyer for the entire business.

The musical instrument division may appeal to a rival manufacturer, possibly Steinway/Selmer of the US or Japan's Yamaha, but they are unlikely to be interested in the publishing catalogue.

Conversely, that business might attract a multinational music group such as the UK's EMI, PolyGram of the Netherlands or Japan's Sony, although it is doubtful that any of them would want to hold on to the instruments side.

Another potential problem is that, although publishing – which involves collecting royalties for the right to perform pieces of music – is one of the fastest-growing areas of the music industry, the classical market is currently depressed.

The only other option, according to analysts, is for Boosey to attract one of the individual investors who occasionally pounce on "glamour stocks".

Meanwhile, the Boosey board is desperately trying to find a way of maintaining the company's independence, while hoping – as Mr Holland puts it – that the situation will be resolved "as quickly as possible" because "uncertainty is always undesirable".

BIB plans shopping lines on terrestrial television

By Raymond Snoddy

British Interactive Broadcasting, the new £700m ($1.1bn) company to be unveiled tomorrow, which will provide home shopping and home banking on digital satellite television, is also planning to offer interactive services on digital terrestrial TV.

British Sky Broadcasting, the satellite TV venture, which is expected to announce third-quarter profits its pre-tax profits of about £80m tomorrow, is the common link between the two. BSkyB put together the British Interactive Broadcasting joint venture which includes BT, Midland Bank and Matsushita, the Japanese consumer electronics group.

BIB will subsidise the "black-box" decoders which will be able both to handle 200 channels of digital TV and also provide services such as fast Internet access on TV screens. But BSkyB is also a founding shareholder of British Digital Broadcasting, one of two rivals bidding for three commercial "multiplexes" or blocks of frequencies.

The Independent Television Commission will decide between BDB and Digital Television Network (DTN), a company owned by NTL, the cable and television services group, within the next six weeks. Unlike digital satellite transmissions, digital terrestrial is broadcast from hilltop transmitters and can be received on a conventional domestic aerial.

The BIB partners believe a modified selection of home banking and home shopping services could be provided from the launch of digital terrestrial in the middle of next year if BDB is successful.

The possibility of making digital satellite and digital terrestrial receivers compatible through a plug-in "cart" is already being worked on. A completely integrated single receiver will follow later.

BIB is planning massive subsidies for its digital satellite receivers to try to kick-start the market. Equipment that would normally retail for £500 is expected to be offered at £199.

In its application to the commission, BDB did not envisage an early launch of interactive services and instead concentrated on offering 15 TV channels such as Sky Sport and Sky Movies and new channels from the BBC. By contrast, DTN from the outset promised more than 40 interactive services such as home shopping as well as entertainment.

It is not clear how much attention the ITC will pay to the possibility of a BIB-BDB link-up and the launch of earlier-than-expected interactive services. BSkyB will now argue that the likely involvement of the BIB companies together with the other BDB shareholders, Carlton Communications and Granada, is the best chance for establishing both digital satellite and digital terrestrial broadcasting in the UK.

NEWS DIGEST

Motion on Shell gains support

Two leading environmental and human rights organisations have come out in favour of a shareholder-sponsored resolution calling for Royal Dutch/Shell to introduce rigorous standards for measuring its environmental and human rights policies – including independent external audits.

The Worldwide Fund for Nature and Amnesty UK will today announce their support for the motion, which will be put to the Shell annual meeting in London on May 14.

Shell says the resolution is unnecessary, as it is already making improvements to its environmental and human rights policies. But Pirc, the corporate governance pressure group, and the institutional and private shareholders behind the resolution say it is "still lagging behind best practice" in the industry.

Amnesty UK will use a Pirc-sponsored investor briefing today to call on Shell to accept "social auditing" to ensure the company complies with its new commitment to human rights. The Worldwide Fund for Nature has written to Prudential, Britain's biggest life assurance company and Shell's largest shareholder with a 3.1 per cent stake, asking it to support the resolution.

● Shell resumed oil production around the southern Nigerian town of Warri yesterday, 10 days after installations were closed following clashes between rival Ijaw and Itsekiri communities. "Dialogue with local leaders has paid off," the company said. "Operations are now virtually back to normal."

Whitbread plans pubs sell-off

Whitbread, the brewing and leisure group, intends to sell many of its underperforming pubs and off-licences as part of an effort to improve its return on capital.

The group has drawn up plans to dispose of about 400 of its 3,700 pubs. Also, 80 of its 1,500 off-licences (liquor stores) are expected to go. Whitbread owns a number of off-licence chains, including Threshers, Bottoms Up and Wine Rack. The company has been talking to a several potential buyers but no sale has yet been agreed.

Mr David Thomas, who takes over from Mr Peter Jarvis as chief executive this summer, is expected to emphasise the need for Whitbread to focus on its core assets, when he presents the group's annual results tomorrow. Profits are forecast to rise 13 per cent from £283m ($458m) to £320m.

Roger Taylor

TGE considering listing

TGE Group, the instrumentation company spun out of Meggitt, the specialist engineering group, said yesterday it was considering joining the stock market, as it announced its first annual results.

The company was formed in December 1995 in a management buy-out backed by NatWest Markets and Schroder Ventures. Combined operating profits of TGE's subsidiaries were £4.2m ($6.8m) in 1996, 75 per cent up on last time. Pre-tax profits were £2.4m on turnover of £47.2m. Mr Lars McBride, a director of TGE, said the company was valued at about £18m at the time of the buy-out, but he expected a significant advance this year and hoped to achieve a stock market valuation closer to £50m.

He said the planned flotation could happen in the next 12 months, but said the company would be happy to delay its plans if conditions were not favourable.

The company also announced that its subsidiary Ion Track Instruments had won a contract from the US Federal Aviation Authority for its explosives detection equipment, worth up to $15m (£9.2m) in the first stage.

Audley buys Hotel Meurice

Audley Group, which manages the hotel assets of the Brunei Investment Agency, has bought the Hotel Meurice in Paris from the Aga Khan, the wealthy leader of the world's Ismaili Moslems, for an undisclosed sum.

The group is building a small collection of trophy hotels, including the Dorchester in London and the Beverly Hills Hotel in California. Last year, its turnover was £77m ($125m).

Unipart wins Bull contract

Unipart, the UK motor parts and accessories group, is to operate the UK replacement parts business of Bull, the French computer concern.

Unipart's Demand Chain Management division will manage a range of logistics services, including distribution of parts in the UK and Ireland. Bull's parts operation will be moved from its existing Stevenage facilities to Unipart's distribution headquarters in Coventry.

Talks sought on ICI leaks

Environment Agency officials are seeking urgent talks with senior management of ICI over chemical leaks, the agency said yesterday. The move follows separate chemical leaks within hours of each other at two ICI plants in the north of England.

Longbridge floats on Aim

Longbridge International is set to become the latest head-hunting concern to come to market. The company, which specialises in placing legal professionals with salaries of more than £100,000 ($162,000), is likely to be valued at £3.5m when it floats on the Alternative Investment Market today.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 5		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.7800	+0.0749	485 - 714	19.7791	19.6834	19.7165	2.6	19.66	2.0	-	-	103.5
Belgium	(BFr)	57.9232	+0.2004	087 - 427	58.0090	57.6630	57.7982	2.6	57.5382	2.7	56.2132	3.0	103.2
Denmark	(DKr)	10.6962	+0.0485	904 - 019	10.7019	10.6549	10.6742	2.5	10.6307	2.4	10.4207	2.6	105.9
Finland	(FM)	8.4721	+0.0483	655 - 787	8.4787	8.4200	-	-	-	-	-	-	82.5
France	(FFr)	9.4743	+0.0441	705 - 780	9.4818	9.4321	9.4521	2.8	9.4085	2.8	9.1914	3.0	106.1
Germany	(DM)	2.8075	+0.0105	061 - 089	2.8111	2.7959	2.8009	2.8	2.7873	2.9	2.7208	3.1	104.8
Greece	(Dr)	446.067	+1.82	848 - 285	447.679	444.438	-	-	-	-	-	-	65.5
Ireland	(I£)	1.0883	+0.0033	854 - 912	1.0912	1.0837	1.088	0.3	1.0871	0.4	1.0805	0.7	98.5
Italy	(L)	2775.56	+3.84	430 - 682	2781.23	2767.62	2778.96	-1.5	2783.81	-1.2	2786.61	-0.4	76.0
Luxembourg	(LFr)	57.9232	+0.2004	087 - 427	58.0090	57.6630	57.7982	2.6	57.5382	2.7	56.2132	3.0	103.2
Netherlands	(Fl)	3.1580	+0.0117	566 - 593	3.1616	3.1482	3.1499	3.1	3.1341	3.0	3.0586	3.1	102.8
Norway	(NKr)	11.6158	+0.1351	080 - 232	11.6232	11.5128	11.5911	2.5	11.5428	2.5	11.3171	2.6	100.9
Portugal	(Es)	281.941	+1.018	773 - 109	282.109	280.752	282.081	-0.6	282.366	-0.6	-	-	94.2
Spain	(Pta)	236.723	+0.797	577 - 869	236.970	235.920	236.857	-0.7	236.723	0.0	235.249	0.6	78.0
Sweden	(SKr)	12.8380	+0.1547	279 - 480	12.8480	12.7069	12.819	1.8	12.7795	1.8	12.5835	2.0	83.4
Switzerland	(SFr)	2.3931	+0.0106	919 - 943	2.3943	2.3821	2.3843	4.4	2.3664	4.5	2.2822	4.6	104.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.7
Ecu	-	1.4387	+0.005	379 - 394	1.4401	1.4341	1.4365	1.8	1.4318	1.9	1.4067	2.2	-
SDR	-	1.181404	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6206	+0.0032	203 - 213	1.6258	1.6163	-	-	-	-	-	-	-
Brazil	(R$)	1.7253	+0.0034	247 - 259	1.7307	1.7209	-	-	-	-	-	-	-
Canada	(C$)	2.2398	+0.0029	387 - 409	2.2434	2.2347	2.2339	3.1	2.2232	3.0	2.1786	2.7	85.0
Mexico	(New Peso)	12.8059	+0.0019	857 - 261	12.8583	12.7824	-	-	-	-	-	-	-
USA	($)	1.6210	+0.0028	205 - 215	1.6266	1.6170	1.6201	0.6	1.6183	0.7	1.6117	0.6	106.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0770	+0.0142	757 - 783	2.0783	2.0711	2.0769	0.1	2.0761	0.2	2.072	0.2	99.5
Hong Kong	(HK$)	12.5581	+0.0211	534 - 627	12.6005	12.5277	12.5534	0.4	12.5425	0.5	12.5023	0.4	-
India	(Rs)	57.9913	+0.1649	329 - 497	58.2160	57.8890	-	-	-	-	-	-	-
Israel	(Shk)	5.5302	+0.0197	225 - 379	5.5418	5.5198	-	-	-	-	-	-	-
Japan	(Y)	205.470	+0.387	366 - 574	205.910	204.860	204.5	5.7	202.64	5.5	194.03	5.6	120.3
Malaysia	(M$)	4.0631	+0.0038	610 - 651	4.0808	4.0541	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3532	+0.0115	513 - 551	2.3574	2.3486	2.3561	-1.5	2.3612	-1.4	2.3815	-1.2	116.2
Philippines	(Peso)	42.7418	+0.0634	002 - 833	42.7833	42.7002	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0796	+0.0106	775 - 816	6.1002	6.0670	-	-	-	-	-	-	-
Singapore	(S$)	2.3432	+0.0015	416 - 447	2.3518	2.3385	-	-	-	-	-	-	-
South Africa	(R)	7.2240	+0.0197	193 - 286	7.2424	7.2086	-	-	-	-	-	-	-
South Korea	(Won)	1447.55	+2.5	387 - 124	1451.24	1443.87	-	-	-	-	-	-	-
Taiwan	(T$)	44.9423	+0.1667	879 - 966	45.0585	44.8700	-	-	-	-	-	-	-
Thailand	(Bt)	42.2919	+0.0488	626 - 212	42.4380	42.2040	-	-	-	-	-	-	-

† Rates for May 2. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.1900	+0.0252	867 - 933	12.1985	12.1420	12.1753	1.5	12.13	2.0	11.935	2.1	103.3
Belgium	(BFr)	35.7330	+0.082	320 - 340	35.7500	35.5700	35.673	2.0	35.5455	2.1	35.0055	2.0	103.2
Denmark	(DKr)	6.5985	+0.0173	970 - 000	6.6032	6.5735	6.5896	1.6	6.5712	1.7	6.4895	1.7	105.4
Finland	(FM)	5.2265	+0.0196	240 - 289	5.2289	5.1933	5.2177	2.0	5.1989	2.1	5.1165	2.1	82.0
France	(FFr)	5.8447	+0.0171	442 - 452	5.8487	5.8200	5.834	2.2	5.813	2.2	5.7047	2.4	105.6
Germany	(DM)	1.7320	+0.0035	316 - 323	1.7333	1.7260	1.7288	2.2	1.7223	2.3	1.6886	2.5	104.4
Greece	(Dr)	275.180	+0.525	130 - 230	275.510	274.260	276.735	-6.8	279.305	-6.0	290.33	-5.5	65.3
Ireland	(I£)	1.4895	-0.002	860 - 930	1.4931	1.4830	1.489	0.4	1.4885	0.3	1.4898	0.0	-
Italy	(L)	1712.25	-0.72	200 - 250	1714.25	1707.25	1715.25	-2.1	1720.1	-1.8	1729.9	-1.0	75.8
Luxembourg	(LFr)	35.7330	+0.082	320 - 340	35.7500	35.5700	35.673	2.0	35.5455	2.1	35.0055	2.0	103.2
Netherlands	(Fl)	1.9482	+0.0036	479 - 484	1.9515	1.9416	1.9444	2.3	1.9364	2.4	1.9008	2.4	102.7
Norway	(NKr)	7.1657	+0.0711	632 - 682	7.1682	7.1002	7.162	0.6	7.1563	0.5	7.1307	0.5	99.0
Portugal	(Es)	173.930	+0.325	880 - 980	173.990	173.250	174.06	-0.9	174.21	-0.6	173.945	0.0	94.9
Spain	(Pta)	146.035	+0.24	990 - 080	146.080	145.600	146.125	-0.7	146.245	-0.6	146.04	0.0	77.7
Sweden	(SKr)	7.9198	+0.0819	160 - 235	7.9235	7.8353	7.917	0.4	7.9072	0.6	7.8598	0.8	83.1
Switzerland	(SFr)	1.4763	+0.004	760 - 766	1.4768	1.4695	1.4715	3.9	1.4621	3.8	1.4165	4.0	103.5
UK	(£)	1.6210	+0.0028	205 - 215	1.6266	1.6170	1.6201	0.6	1.6183	0.7	1.6117	0.6	99.5
Ecu	-	1.1268	-0.0019	265 - 270	1.1300	1.1245	1.128	-1.2	1.1305	-1.3	1.1458	-1.7	-
SDR†	-	0.73325	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9989	+0.0003	988 - 989	0.9989	0.9989	-	-	-	-	-	-	-
Brazil	(R$)	1.0644	+0.0003	843 - 844	1.0644	1.0642	-	-	-	-	-	-	-
Canada	(C$)	1.3818	-0.0006	815 - 820	1.3830	1.3784	1.3789	2.5	1.3737	2.3	1.3523	2.1	84.9
Mexico	(New Peso)	7.9000	-0.0125	900 - 100	7.9100	7.8900	8.018	-17.9	8.2845	-19.5	9.145	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	106.6
Pacific/Middle East/Africa													
Australia	(A$)	1.2813	+0.0066	809 - 817	1.2817	1.2776	1.282	-0.7	1.2828	-0.5	1.2881	-0.5	101.3
Hong Kong	(HK$)	7.7471	-0.0004	466 - 476	7.7476	7.7466	7.747	0.0	7.7475	0.0	7.7586	-0.1	-
India	(Rs)	35.7750	+0.04	500 - 000	35.8000	35.7500	35.99	-7.2	36.45	-7.5	-	-	-
Israel	(Shk)	3.4116	+0.0063	079 - 153	3.4168	3.4042	-	-	-	-	-	-	-
Japan	(Y)	126.755	+0.02	730 - 780	126.900	126.450	126.22	5.1	125.195	4.9	120.395	5.0	121.2
Malaysia	(M$)	2.5065	-0.002	060 - 070	2.5090	2.5058	2.5093	-1.4	2.5147	-1.3	2.536	-1.2	-
New Zealand	(NZ$)	1.4517	+0.0046	510 - 524	1.4524	1.4493	1.454	-1.9	1.4583	-1.8	1.479	-1.9	-
Philippines	(Peso)	26.3675	-0.0065	500 - 850	26.3850	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4455	-0.0016	450 - 460	1.4470	1.4415	1.4433	1.8	1.4387	1.9	1.4175	1.9	-
South Africa	(R)	4.4565	+0.0045	550 - 580	4.4580	4.4540	4.4972	-11.0	4.5722	-10.4	4.887	-9.7	-
South Korea	(Won)	893.000	-	000 - 000	-	-	-	-	-	-	-	-	-
Taiwan	(T$)	27.7250	+0.055	000 - 500	27.7500	27.6690	27.7251	0.0	27.7253	0.0	-	-	-
Thailand	(Bt)	26.0900	-0.015	800 - 000	26.1080	26.0600	26.18	-4.1	26.3475	-3.9	26.985	-3.4	-

† SDR rate per $ for May 2. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 2: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 2	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	6.75	7.34
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	6.75	7.34
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	2	-	1.00	-
US	5½	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	6	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.54	5.65	5.76	6.02	-	-	-
week ago	-	5.54	5.67	5.82	6.18	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	3½	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	3½	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 2	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	3¼ - 3	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	6⅛ - 6	6⅛ - 6	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	1⅝ - 1½	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	3⅛ - 3	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	5⅝ - 5½	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.08	94.06	-0.08	94.08	94.06	91,699	476,432
Sep	93.89	93.86	-	93.90	93.86	172,324	428,102
Dec	93.66	93.66	-0.23	93.69	93.66	196,462	312,796

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.68	94.68	+0.01	94.69	94.68	725	8,481
Sep	94.46	94.46	-0.01	94.46	94.46	27	3,637
Dec	-	94.50	-	-	-	-	-

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 5		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.36	4.846	1.878	4791	5.452	20.06	486.7	408.7	22.17	4.132	1.727	3.866	2.799	354.8	2.483
Denmark	(DKr)	54.13	10	8.854	2.623	1.017	2593	2.951	10.86	263.5	221.2	12.00	2.236	0.935	2.093	1.515	192.1	1.344
France	(FFr)	61.14	11.29	10	2.963	1.148	2929	3.333	12.27	297.6	249.8	13.55	2.526	1.056	2.363	1.711	216.9	1.518
Germany	(DM)	20.63	3.812	3.375	1	0.388	988.6	1.125	4.140	100.4	84.32	4.574	0.853	0.356	0.798	0.577	73.21	0.512
Ireland	(I£)	53.24	9.835	8.708	2.580	1	2551	2.903	10.68	259.1	217.6	11.80	2.199	0.919	2.058	1.490	188.9	1.322
Italy	(L)	2.087	0.386	0.341	0.101	0.039	100.	0.114	0.419	10.16	8.530	0.463	0.086	0.036	0.081	0.058	7.405	0.052
Netherlands	(Fl)	18.34	3.388	3.000	0.889	0.345	878.7	1	3.680	89.27	74.95	4.066	0.758	0.317	0.709	0.513	65.07	0.455
Norway	(NKr)	49.85	9.208	8.153	2.416	0.936	2388	2.718	10	242.6	203.7	11.05	2.059	0.861	1.927	1.395	176.9	1.238
Portugal	(Es)	20.55	3.796	3.361	0.996	0.386	984.4	1.120	4.122	100.	83.97	4.555	0.849	0.355	0.794	0.575	72.90	0.510
Spain	(Pta)	24.47	4.520	4.003	1.186	0.460	1172	1.334	4.909	119.1	100.	5.425	1.011	0.422	0.946	0.685	86.82	0.608
Sweden	(SKr)	45.11	8.333	7.379	2.186	0.847	2161	2.460	9.050	219.5	184.3	10	1.864	0.779	1.744	1.262	160.0	1.120
Switzerland	(SFr)	24.20	4.471	3.959	1.173	0.455	1160	1.320	4.856	117.8	98.91	5.366	1	0.418	0.936	0.677	85.88	0.601
UK	(£)	57.92	10.70	9.474	2.807	1.088	2775	3.158	11.62	281.9	236.7	12.84	2.393	1	2.239	1.621	205.5	1.438
Canada	(C$)	25.87	4.779	4.231	1.254	0.486	1239	1.410	5.190	125.9	105.7	5.735	1.069	0.447	1	0.724	91.78	0.642
US	($)	35.73	6.601	5.845	1.732	0.671	1712	1.948	7.168	173.9	146.0	7.921	1.476	0.617	1.381	1	126.8	0.887
Japan	(Y)	28.18	5.207	4.610	1.366	0.529	1350	1.537	5.655	137.2	115.2	6.248	1.164	0.487	1.090	0.789	100.	0.700
Ecu		40.28	7.441	6.588	1.952	0.757	1930	2.196	8.081	196.0	164.6	8.929	1.664	0.695	1.557	1.127	142.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est.vol	Open int.
Jun	0.5800	0.5791	-0.0033	0.5811	0.5786	14,296	81,682
Sep	0.5839	0.5827	-0.0036	0.5840	0.5827	112	3,268
Dec	-	0.5905	-	-	0.5890	10	328

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est.vol	Open int.
Jun	0.6826	0.6806	-0.0021	0.6835	0.6800	11,060	43,208
Sep	0.6885	0.6871	-0.0026	0.6885	0.6868	45	2,215
Dec	0.6950	0.6950	-	0.6950	0.6950	5	433

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est.vol	Open int.
Jun	0.7945	0.7941	-0.0005	0.7959	0.7931	11,260	86,099
Sep	0.8067	0.8043	-0.0010	0.8067	0.8043	151	1,797
Dec	-	0.8170	-	0.8170	0.8170	8	703

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est.vol	Open int.
Jun	1.6220	1.6166	-0.0060	1.6246	1.6158	20,543	38,400
Sep	1.6200	1.6150	-0.0050	1.6200	1.6150	138	969
Dec	-	1.6150	-	-	1.6100	2	102

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
1.620	1.03	1.57	1.96	0.91	1.54	2.00
1.630	0.60	1.13	1.51	1.49	2.11	2.51
1.640	0.30	0.78	1.14	2.19	2.65	-

Previous day's vol., Calls 52 Puts 602 . Prev. day's open int., Calls 32,718 Puts 32,802

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
0.580	0.32	0.65	0.91	0.41	0.64	0.82
0.585	0.16	0.43	0.68	0.74	0.93	1.07
0.590	0.08	0.29	0.50	1.13	1.28	1.39

Previous day's vol., Calls 186 Puts 284 : Prev. day's open int., Calls 25,472 Puts 40,609

UK INTEREST RATES

LONDON MONEY RATES

May 2	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	6½ - 6	6⅛ - 6	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	[illegible]

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on May 2. 6.1834pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1997. Agreed rate for period May 26, 1997 to Jun 24, 1997, Scheme III 7.71pc. Reference rate for period Mar 28, 1997 to Apr 30, 1997, Schemes IV & V 6.450pc. Finance House Base Rate 6½pc from May 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	May 2	Apr 25		May 2	Apr 25
Bills on offer	£200m	£200m	Top accepted rate	6.1969%	6.1368%
Total of applications	£1313m	£1241m	Ave. rate of discount	6.1834%	6.1348%
Total allocated	£200m	£200m	Average yield	6.2802%	6.2300%
Min. accepted bid	£98.455	£98.470	Offer at next tender	£200m	£200m
Allotment at min. level	73%	95%	Min. accept. bid 92 days	-	-

■ Pound in New York

May 5	---Latest---	-- Prev. close --
£ spot	1.6200	1.6230
1 mth	1.6190	1.6220
3 mth	1.6172	1.6201
1 yr	1.6096	1.6128

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Irish Bank (GB)	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Barclays Bank	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Investec Bank (UK) Ltd	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	6.29
Broker loan rate	7¼	Two month	-	Three year	6.41
Fed.funds	5½	Three month	5.22	Five year	6.56
Fed.funds at intervention	-	Six month	5.55	10-year	6.89
		One year	5.86	30-year	6.91

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	110-02	109-25	+0-04	110-04	109-25	441,497	469,893
Sep	109-21	109-13	+0-05	109-23	109-12	12,830	47,537
Dec	109-08	109-03	+0-08	109-08	109-00	4,756	8,214

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	129.48	129.50	+0.02	129.52	129.36	26,699	150,580
Sep	127.90	127.94	+0.02	127.90	127.86	202	10,359
Dec	97.46	97.50	+0.02	97.46	97.46	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	CALLS Jul	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Sep
127	2.57	1.52	1.95	0.08	0.59	1.02
128	1.67	0.89	1.35	0.17	0.95	1.40
129	0.91	0.46	0.88	0.41	1.52	1.93
130	0.33	0.20	0.53	0.83	-	-
131	0.07	0.06	0.29	1.57	-	-

Est. vol. total, Calls 21,619 Puts 3,624 . Previous day's open int., Calls 109,139 Puts 140,275.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.39	96.35	-0.07	96.39	96.35	13,453	66,611
Sep	96.50	96.45	-0.07	96.50	96.44	7,497	50,456
Dec	96.50	96.45	-0.04	96.50	96.45	2,319	34,374

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	114.25	114.17	+0.45	114.25	114.05	26,240	73,737
Sep	-	113.36	-	-	-	195	243

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.08	95.06	-	95.08	95.04	613	5,784
Sep	-	94.70	-	-	-	-	-

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	92.6423	-0.440	7.86	7.87	8.02
Austria		5.750	04/07	99.7900	+0.300	5.78	5.92	5.88
Belgium		6.250	03/07	102.6300	+0.360	5.89	6.05	6.07
Canada *		7.000	12/06	103.4000	+0.400	6.26	6.76	6.84
Denmark		8.000	03/06	110.1400	-0.260	6.46	6.57	6.73
France	BTAN	4.750	03/02	100.2398	+0.240	4.70	4.85	4.74
	OAT	5.500	04/07	98.5700	+0.410	5.69	5.81	5.74
Germany Bund		6.000	01/07	101.5500	+0.290	5.76	5.92	5.93
Ireland		8.000	08/06	108.5500	-0.380	6.73	6.80	6.93
Italy		6.750	02/07	95.3200	+0.470	7.43†	7.52	7.56
Japan	No 145	5.500	03/02	117.7769	-0.030	1.58	1.42	1.40
	No 182	3.000	09/05	104.9225	+0.184	2.30	2.27	2.31
Netherlands		5.750	02/07	100.6200	-0.160	5.66	5.80	5.81
Portugal		9.500	02/06	118.1600	+0.110	6.70	6.82	7.00
Spain		7.350	03/07	103.7000	-	6.81	6.96	7.14
Sweden		8.000	08/07	105.6201	+0.807	7.20	7.35	7.38
UK Gilts		7.000	06/02	99-19	+4/32	7.10	7.33	7.25
		7.250	12/07	99-03	+7/32	7.37	7.67	7.59
		9.000	10/08	111-23	+8/32	7.46	7.76	7.67
US Treasury *		6.250	02/07	97-00	+5/32	6.67	6.94	6.86
		6.625	02/07	97-00	+11/32	6.90	7.14	7.07
ECU (French Govt)		7.000	04/06	106.5900	+0.390	6.03	6.21	6.27

London closing. *New York closing (Apr 2) Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal Source: MMS International

FTSE GOLD MINES INDEX

	May 2	% chg on day	May 1	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1493.36	+0.7	1483.28	2318.56	2.24	-	2382.86	1469.60
■ Regional Indices								
Africa (14)	1724.86	-0.4	1731.94	3128.70	5.18	27.33	3197.52	1724.86
Australasia (6)	1792.51	+0.3	1786.37	2638.44	3.00	19.41	2844.14	1786.37
North America (12)	1394.39	+1.2	1378.25	2016.06	0.96	53.36	2128.45	1335.84

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UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due		Last xd	City line
Shorts" (Lives up to Five Years)								
Treas Cnv 7pc 1997‡‡		[illegible]	—	1,988	Fe6	Au6	28.1	4491
Treas 8¾pc 1997‡‡		[illegible]	-.1	5,550	Mr1	Se1	20.2	1341
Exch 15pc 1997		104	-.3	830	Ap27	Oc27	17.4	1269
Exch 9¾pc 1998		102¼	—	3,550	Jy19	Ja19	8.1	1273
Treas 7¼pc 1998‡‡		[illegible]	—	8,150	Se30	Mr30	18.3	1788
Treas 7½pc 2006‡‡		[illegible]	2.8	11,700	Ja7	De7	28.11	1148
Treas 7¾pc 2006‡‡		[illegible]	1.9	4,000	Mr8	Se8	27.2	2300
Treas 8pc 2002-6‡‡		102	1.0	2,050	Ap5	Oc5	25.3	1334
Treas 11¾pc 2003-7		[illegible]	1.1	3,150	Jy22	Ja22	13.1	1288
Treas 8½pc 2007 ‡‡		[illegible]	2.0	7,397	Ja16	Jy16	7.1	1339
Treas 7 1/4pc 2007‡‡		[illegible]	2.1	5,000	Ja7	De7	-	-
Index-Linked (b)								
4⅝pc '98‡‡	(135.6)	[illegible]	0.1	800	Ap27	Oc27	17.4	1753
2½pc '01	(78.3)	[illegible]	0.6	2,150	Mr24	Se24	13.3	1316
2½pc '03	(78.8)	[illegible]	0.7	2,800	My20	Nv20	11.11	1317
4⅛pc '04‡‡	(135.6)	[illegible]	0.8	1,150	Ap21	Oc21	10.4	1255
2pc '06	(69.5)	[illegible]	1.0	2,350	Ja19	Jy19	8.1	1314
2½pc '09	(78.8)	173⅝	1.2	2,400	My20	Nv20	11.11	1318
[illegible]								

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for August 1996: 153.1 and for March 1997: 155.4.

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

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	Init Charge	Notes Selling Price	Buying Price	+ or -	Yield Gr's
Abtrust Fund Mngrs Luxembourg SA (u)					
4 Boulevard Royal L 2449 Luxembourg 00 352 227001					
Abtrust Atlas Fund					
Global Cap Portfolio		$3.582		—	—
United States Portfolio		$9.080xd		—	—
Cont Europe Portfolio 0		DM7.510		—	—
Japan Portfolio		¥D.888		—	—
Pacific Portfolio		$9.369		—	—
Gold Portfolio		$5.327		—	—
UK Growth at Income		£2.236xd		—	3.91
Dollar Portfolio		$1.008xd		—	7.88
Sterling Portfolio		£1.030xd		—	6.30
Asian Master Fund (u) (x)					
27 avenue de la Liberte, L-1931, Lux 00 352 2954 941					
Australian NAV		A$17.82		—	—
Austrian Nat NAV		Sch87.28		+0.14	—
Belgo/Lux NAV		BFr950.45		+4.72	—
Dutch Nat NAV		Dfl49.09		-0.06	—
French Nat NAV		FFr131.42		+1.28	—
German Nat NAV		DM21.78		+0.09	—
Hongkong Nat NAV		HK$134.50		+2.58	—
Italian Nat NAV		L32725		+112	—
Japanese Nat NAV		Y1240		-1	—
Spanish Nat NAV		Pta1611		+2	—
UK Nat NAV		£11.37		+0.04	—
United States Dlr Res		$11.18		+0.01	—
Prices quoted are "A" shares					
American Phoenix Investment Portfolios (u)					
13 rue Goethe, L-1637 Luxembourg 00 352 404646211					
European Multinational Pfolio		Ecu22.45		+0.22	—
European Multinational Pfolio		$25.35		+0.25	—
European Multinational Pfolio		£16.04		+0.04	—
European Multinational Pfolio		L43301		+475	—
European Multinational Pfolio		DM43.80		+0.46	—
Global Multinational Pfolio.		Ecu20.29		+0.21	—
Global Multinational Pfolio.		$22.91		+0.22	—
Global Multinational Pfolio.		£14.14		+0.05	—
Global Multinational Pfolio.		L39186		+471	—
Global Multinational Pfolio.		DM39.65		+0.45	—

	Init Charge	Notes Selling Price	Buying Price	+ or -	Yield Gr's
Fleming Group - Contd.					
FFF Emerging Markets F		$10.46	11.09	+0.06	—
FFF Emerging Markets Debt F		$14.78	15.94	+0.08	—
FFF European		DM45.36	47.36	+0.73	—
FFF European Smlr Cos F.		DM26.36	27.89	+0.38	—
FFF Global Conv F		$18.01	19.06	+0.10	—
FFF India N		$10.19	10.78	-0.08	—
FFF Intl Bond F		$13.41	14.18	+0.01	—
FFF Intl Equity F		DM80.43	88.28	+1.75	—
FFF Japanese		$14.81	15.67	—	—
FFF Japanese Smaller Cos F.		$5.77	6.10	—	—
FFF Latin American		$13.85	14.66	+0.08	—
FFF Pacific		$22.46	23.76	+0.17	—
FFF Sterling Bond		£1.084	1.147	+0.002	7.50
FFF UK Enterprise		£3.88	5.85	+0.01	—
FFF US Discovery		$41.48	43.87	+0.62	—
Fleming Flagship Series II (Daily Dealing)					
DM Class F		DM12.483		+0.003	2.67
FFr Class F		FFr64.418		+0.015	2.95
ITL Class F		L22294		+12.000	6.70
£ Class F		£3.250		+0.002	5.70
US$ Class F		$12.899		+0.006	5.34
Oasis Fund Sicav					
International Equity F ... 5 CE $9.728		10.3167		—	—
Foreign & Colonial Emerging Markets Ltd (u)					
Exchange Ho, Primrose St, Lon, EC2A 2NY 0171-628 1234					
F&C Emerging Markets					
Argentinian Inv Co F		$34.80		+0.36	—
Brazilian Inv Co SICAV F		$53.59		+0.52	—
Global Emerging Mkts Inv Co SICAV F.		$10.97		+0.08	—
Latin Amer Inv Co SICAV F.		$12.29		+0.10	—
Mexican Inv Co SICAV F.		$24.24		+0.15	—
Foreign & Colonial Portfolios Fd Sicav (u)					
33 Boulevard Prince Henri, L-1724 Lux 00 352 2266 211					
Am Smlr Cos Eq F		$36.32		+0.74	—
Japanese Smlr Cos Eq F		¥872.00		—	—
European Smlr Cos Eq F		Ecu17.58		+0.13	—
Emerging Asian Eq F		$21.66		+0.06	—

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[illegible]

OTHER OFFSHORE FUNDS

[illegible]

[illegible]

● MANAGED FUNDS NOTES

[illegible]

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 5 / Sch)

BELGIUM/LUXEMBOURG (May 5 / Frs.)

CZECH REP (May 5 / Koruna)

DENMARK (May 5 / Kr)

FINLAND (May 5 / Mkk)

FRANCE (May 5 / Frs.)

GERMANY (May 5 / Dm.)

GREECE (May 5 / Drachma)

ITALY (May 5 / Lire)

NETHERLANDS (May 5 / Fls.)

NORWAY (May 5 / Kroner)

POLAND (May 5 / Zloty)

PORTUGAL (May 5 / Escudo)

SPAIN (May 5 / Pts.)

SWEDEN (May 5 / Kronor)

SWITZERLAND (May 5 / Frs.)

TURKEY (May 5 / Tk Lira)

PACIFIC

JAPAN (May 2 / Yen)

AUSTRALIA (May 5 / AustS)

HONG KONG (May 5 / H.K.$)

INDONESIA (May 5 / Rupiah)

MALAYSIA (May 5 / MYR)

NEW ZEALAND (May 5 / NZ $)

SINGAPORE (May 5 / S$)

SOUTH KOREA (May 5 / Won)

TAIWAN (May 5 / TW $)

THAILAND (May 2 / Baht)

NORTH AMERICA

CANADA

TORONTO (May 5 / Can $)

4 pm close

MONTREAL (May 5 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (May 5 / Rand)

INDICES

				1997 High		1997 Low	
Ireland							
ISEQ Overall(4/1/88)	(c)	3165.47	3162.93	3165.47	3/5	2726.07	2/1
Italy							
Banca Comm Ital(1972)	771.87	772.00	(c)	797.71	10/2	642.65	2/1
MIB General(2/1/97)	1161.0	1161.0	(c)	1197.00	10/2	991.00	2/1
Japan							
Nikkei 225(16/5/49)	(c)	19514.75	19275.33	19514.75	2/5	17303.65	10/1
Nikkei 300(1/10/82)	(c)	285.23	282.06	285.23	2/5	251.04	27/1
WORLD							
MS Capital Intl(1/1/70)	858.9*	856.0	847.2	858.90	5/5	794.50	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	(c)	2247.26	2228.09	2247.26	2/5	1893.80	2/1
Euro Top-100(26/6/90)	1937.37	1919.61	1911.19	1937.37	5/5	1582.99	2/1
HSBC JC Drgn(31/12/88)	(u)	(u)	389.43	428.46	20/1	381.54	29/4
ING Brngs Emrg(7/1/92)	174.85	173.40	173.58	181.33	26/2	158.74	3/1

US INDICES

Dow Jones	May 2	May 1	Apr 30	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7071.20	6976.48	7008.99	7085.16 (11/3)	6391.69 (11/4)	7085.16 (11/3/97)	41.22 (8/7/32)
Home Bonds	101.89	101.75	101.59	103.83 (19/2)	101.09 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2605.83	2544.18	2572.54	2605.83 (2/5)	2222.07 (2/1)	2605.83 (2/5/97)	13.23 (8/7/32)
Utilities	220.72	216.46	216.39	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7104.51 (7041.80) Low 6935.54 (6891.39) (Theoretical♣)
Day's high 7077.82 (7008.99) Low 6976.88 (6913.47) (Actual♣)

Standard and Poors	May 2	May 1	Apr 30	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	812.97	798.53	801.34	816.29 (18/2)	737.01 (2/1)	816.29 (18/2/97)	4.40 (1/6/32)
Industrials♥	954.41	938.77	942.01	954.41 (2/5)	865.42 (11/4)	954.41 (2/5/97)	3.52 (30/6/32)
Financial	92.81	90.55	90.91	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/8/74)
NYSE Comp.	422.97	415.71	418.94	427.70 (10/3)	389.47 (11/4)	427.70 (10/3/97)	4.64 (25/4/42)
Amex Comp.	568.50	558.50	552.91	609.63 (10/3)	541.20 (28/4)	617.61 (22/5/96)	524.20 (18/7/96)
NASDAQ Cmp	1305.33	1270.50	1260.76	1388.06 (22/1)	1201.00 (2/4)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Apr 25	Apr 18	Apr 11	Year ago
Dow Jones Ind. Div. Yield	1.82	1.82	1.94	2.17
	Apr 30	Apr 23	Apr 16	Year ago
S & P Ind. Div. yield	1.75	1.80	1.82	1.86
S & P Ind. P/E ratio	22.89	22.19	21.85	21.80

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ph Morris	6,524,700	39⅝	+¼
Tosco	6,246,000	30¼	+1⅝
Global Mar	5,565,600	18⅝	-⅜
Pepsico	4,667,400	35⅞	+⅝
LSI Logic	4,632,000	41⅝	+1¾
Compaq	4,594,700	91½	+3¼
Elect Data	4,512,800	37⅞	+2⅝
Pharm Upj	4,429,500	29¼	-½
Micron Tc	4,300,800	36¾	+⅝
Cypress Sm	4,251,100	15⅛	+⅝

■ TRADING ACTIVITY

● Volume (million)

	May 2	May 1	Apr 30
New York SE	499.731	463.712	556.042
Amex	18.322	20.452	18.356
NASDAQ	734.847	626.482	668.636
NYSE			
Issues Traded	3,341	3,313	3,353
Rises	2,129	1,458	1,611
Falls	482	1,023	945
Unchanged	730	832	797
New Highs	186	75	117
New Lows	17	28	41

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
May	2635.0	2662.0	+24.0	2668.0	2620.0	8,745	26,024
Jun	2618.0	2638.0	+24.0	2641.0	2599.0	378	24,233
■ DAX							
Jun	3530.0	3575.5	+69.5	3584.0	3525.5	17,915	-
Sep	3564.0	3601.0	+74.0	3605.0	3563.0	166	-
■ OMX							
Apr	2143.00	2166.00	+48.00	2167.00	2140.00	3,284	22,699
May	2153.00	2168.75	+43.75	2171.00	2153.00	115	1,509
■ SOFFEX							
May	4995.0	5032.0	+77.1	5039.0	4985.0	4,775	25,090
Jun	4896.0	5018.0	-	-	-	64	911

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Jun	816.95	821.30	+19.25	821.30	815.25	81,878	185,336
Sep	826.70	829.50	+19.50	829.50	823.50	623	6,479

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Jun	19240.0	19530.0	+290.0	19560.0	19210.0	20,563	227,735
Sep	19330.0	19500.0	-10.0	19500.0	19330.0	175	4,946

Open interest figures for previous day.

** Sat May 3: Taiwan Weighted Price 8314.67; Korea Comp Ex 704.87. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp/Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 26 Industrials – 264.3; BMKB-Net 100 - 1; NYSE All Common – 50; Standard & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♣ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 5 - 3585.69 +74.81. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, May 2, 1997

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	13.4m	375	+4
Toshiba Corp	10.4m	753	+19
Matsushita E Ind	6.8m	2150	+80
NKK Corp	6.7m	275	+3
Kawasaki Steel	6.6m	382	+3
Fujitsu	6.3m	1370	+20
Mitsui Min & Sml	6.1m	521	+7
Hitachi	5.7m	1230	+20
Tokyo Gas	5.1m	294	-1
Mitsubishi Hvy	5.0m	820	-11

4 pm close May 5

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	1997 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
30¾	24¼	AAR x	0.48	1.5	24	2174	u31⅞	30⅝	31⅞	+1¼
43	33¼	AMP x	1.04	2.8	29	4356	37	36¼	36⅞	+⅜
95¼	78¼	AMR			7	7470	u95¼	91½	94	-1⅛
37⅝	31⅝	ASA	1.20	3.7	21	270	32⅞	32½	32¾	+¼
62½	49¾	AbbtL x	1.08	1.7	25	9955	u63⅜	61¾	63⅜	+1¼
17½	14⅛	AbWth Pr	0.40	2.3	8	409	u17½	17¼	17⅜	
19¾	17⅜	ABM Ind x	0.40	2.1	17	283	19⅛	18⅞	19	+⅛
23	17¾	Acptecaln			10	253	20	19⅝	19¾	+⅛
66⅜	58⅛	ACE Ltd	0.72	1.2	10	1453	61⅜	60¾	61⅜	+½
10¾	10	ACM Gvt In	0.90	8.8	11	309	10⅜	10¼	10¼	
7⅝	7	ACM GvOpp	0.63	8.3		93	u7⅝	7½	7⅝	+⅛
9⅞	9¼	ACM Man	0.90	9.4		348	9⅝	9½	9⅝	
10⅜	6¼	Acme Elect				98	7½	7	7	-⅝
20	13¼	Acme Mills				85	15¾	15⅜	15⅝	+⅜
17⅛	14	ACNielsen			28	673	15¾	15	15¾	+¾
33	27¼	Acordia	0.80	2.5	15	174	31¾	31½	31¾	+⅛
29¾	21⅛	Acuson				3684	25	24	25	+1⅛
21⅞	19⅜	Adams Expr	0.55	2.6	1	413	u21⅞	21	21⅜	+¼
48½	24⅞	AdvMic				14900	44⅝	43⅜	44⅜	+⅞
15	10⅜	Advest Grp	0.03	0.2	10	52	14⅛	13⅞	13⅞	
14⅝	11⅜	Advo Inc			16	889	13⅝	13¼	13½	+[illegible]

Continued on next page

NYSE PRICES

4 pm close May 5

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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AMEX PRICES

4 pm close May 5

NASDAQ NATIONAL MARKET

4 pm close May 5

EASDAQ

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$7.125	+0.125	0	8.25	7	Esprit Telecom ADS	US$6		500	12.25	6
Artwork Systems	US$10.375		1900	11	9.5	Innogenetics	US$11.625	-0.125	14136	12.75	10.375
Chemunex	FFr16		0	18	16	Mercer Internatnl.	US$8.625	+0.25	0	11.75	8.125
Dr Solomon's ADS	US$21.75	-0.25	0	25.5	16.875	PixTech	US$4.5		0	6.125	4.25

Prices for 5/5/97. Please note that mid prices are now used to calculate highs and lows.

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Techs lead Dow up to all-time peak

AMERICAS

Wall Street spent yesterday morning flirting with its all-time highs in volatile trading, while the technology sector continued its sharp recovery of last week, *writes Jane Martinson in New York*.

At 1pm the Dow Jones Industrial Average was up 13.25 at 7,084.45, almost level with its previous closing record of 7,085.16 set on March 11, with technology stocks driving the strong performance. NYSE volume was slightly above average at 295.85m shares.

The broader S & P 500 gained 1.39 at 814.36.

The technology-driven Nasdaq composite index continued on its upward path of the past few weeks with a 20.70 increase at 1,325.20. Chief among the outperformers was Cisco Systems, the networking company, which staged a strong rally in the past week after suffering more than most during the sell-off of the sector earlier this year. Cisco rose $1⅞ at $58⅞. Other strong performers in the index included Oracle, the software company, which rose $1¾ at $44¼, and Intel, the largest semiconductor manufacturer, up $2⅞ at $160¼.

The paper sector, one of the weakest performers over the past year, rallied on the back of the agreed takeover of Fort Howard by James River, which spurred speculation that the industry would see a wave of further mergers.

Fort Howard gained $4⅛ to $40⅝ while James River rose $⅝ at $31¼.

International Paper gained $1¾ at $44⅞ and Georgia-Pacific, another large paper manufacturer, gained $3 at $81.

Tobacco stocks continued their bumpy ride of the past few months on worries over jury deliberations in a key case for the industry in Florida. RJR Nabisco shed $⅝ at $28⅞ while Philip Morris lost $1⅝ at $38¼.

TORONTO saw sharp losses in small gold mining and exploration companies, especially those with Indonesian projects, as the market came to terms with the day's news that Bre-X Minerals' claim of a huge gold find at Busang was based on falsified data.

Trading in Bre-X and Minorca Resources, which had a royalty interest in the Busang property, was halted indefinitely. But among other miners, Scorpion Minerals plunged C$1 to C$1.90, and Indomin Resources dropped C$1.07 to C$1.91.

At the other end of the spectrum, Canada's major gold miners moved higher and the price of gold ticked up on the realisation that Bre-X would not be adding to world gold supply after all.

The broad market edged ahead at midsession with the TSE-300 composite index 11.19 higher at 6,118.10.

Caracas on upward track

CARACAS remained on an upward path, adding 1.3 per cent to gains made late last week. By midsession, the IBC index was 85.30 higher at 6,450.75.

Brokers said that heavy foreign buying of leading blue chips, such as the benchmark Electricidad de Caracas, CANTV, the telecommunications monopoly, and Mavesa, the food manufacturer, had reawakened the market.

SAO PAULO edged back at midsession on profit-taking and dips in some retail stocks after Friday's rise in the consumer credit tax. The Bovespa index was 23 weaker at 10,052 as the market continued to await the privatisation of CVRD, planned for last Tuesday but delayed by court injunctions.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997	Start of 1997
Austria	-0.04	+3.27	+9.25	+7.20	+1.01	-4.48
Belgium	+2.91	+8.23	+31.84	+20.17	+13.16	+7.01
Denmark	+0.32	+4.92	+36.12	+14.39	+8.42	+2.53
Finland	+3.67	+10.09	+50.33	+19.71	+12.05	+5.96
France	+4.25	+5.16	+24.48	+14.50	+8.02	+2.15
Germany	+2.10	+5.59	+36.35	+18.85	+12.05	+5.96
Ireland	+5.02	+8.27	+26.70	+15.31	+7.44	+1.60
Italy	+2.03	+6.22	+15.72	+19.02	+11.71	+5.64
Netherlands	+2.14	+8.59	+38.58	+17.98	+10.99	+4.96
Norway	+0.20	+4.87	+27.17	+11.04	+5.68	-0.06
Spain	+3.18	+11.54	+49.22	+17.11	+10.48	+4.48
Sweden	+3.50	+3.60	+41.22	+14.65	+5.62	-0.12
Switzerland	+3.62	+10.20	+33.82	+24.92	+20.49	+13.94
UK	+1.73	+4.37	+15.18	+6.83	+6.83	+1.02
EUROPE	+2.47	+6.04	+25.98	+13.86	+9.74	+3.78
Australia	+0.97	+5.68	+9.39	+4.36	+9.00	+3.08
Hong Kong	+2.81	+5.30	+9.19	-7.45	-2.28	-7.59
Indonesia	-2.69	+1.23	n.a.	+0.94	+3.69	-1.95
Japan	+4.03	+7.42	-10.68	+0.55	-2.62	-7.91
Malaysia	+0.56	-4.18	-7.16	-11.29	-5.56	-10.69
New Zealand	+1.29	+2.37	+3.23	-4.19	-0.91	-6.29
Philippines	-9.61	-15.26	n.a.	-22.76	-18.55	-22.98
Singapore	-0.21	-5.36	-13.31	-8.95	-6.93	-11.99
Thailand	-4.96	-10.48	-57.11	-19.62	-16.51	-21.04
Canada	+5.42	+6.67	+23.67	+4.46	+9.54	+3.58
USA	+6.36	+7.02	+25.29	+9.06	+15.33	+9.06
Brazil	+2.24	+2.44	+68.93	+34.21	+38.59	+31.06
Mexico	-0.63	+0.55	+15.25	+11.27	+17.07	+10.70
South Africa	+1.47	+1.93	+0.35	+8.30	+20.32	+13.76
WORLD INDEX	+4.48	+6.40	+15.75	+7.90	+9.71	+3.74

† Based on May 2nd 1997.

Zurich powers to fourth consecutive high

EUROPE

Last Friday's budget deal in Washington boosted treasuries, the dollar and the Dow; bourses picked up on this, six of them reaching all time highs.

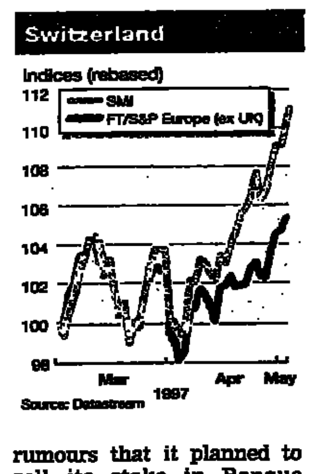
ZURICH powered ahead to a fourth consecutive peak, helped by strong performances in a number of heavily weighted index stocks, including Novartis, Nestlé, Roche and Swiss Re. The SMI index rose 76.1 or 1.5 per cent to 5,029.6, encouraged by the strong performance of Wall Street, a favourable interest rate environment and derivatives-linked buying.

Novartis registered shares rose SFr32 at SFr2,010, breaking through the SFr2,000 level for the first time. Roche certificates added SFr180 at SFr12,690.

Nestlé picked up SFr38 to SFr1,844 as investors bought the stock ahead of today's annual press conference, where first-quarter results were to be be released.

Swiss Re, up SFr54 at SFr1,800, profited from good 1996 figures posted on Friday after the bourse closed. Winterthur, with results due on May 14, rose SFr14 at SFr1,097 as it denied rumours that it planned to sell its stake in Banque Bruxelles Lambert to ING.

Switzerland



Source: Datastream

UBS closed just SFr1 higher at SFr1,408 amid speculation about a possible purchase of Scudder Stevens & Clark. The bank declined to comment although a spokesman said that UBS management had said it was interested in an acquisition to shore up its asset management activities in the US.

FRANKFURT acknowledged the Dow with an index gain of 2.1 per cent; bond market strength with a flurry in financials; and the dollar with a further gain in carmakers, which had already given German equities a strong lead this year.

The Dax index peaked again, closing 74.61 or 2.1 per cent higher at an Ibis-indicated 3,565.69. Turnover may have reflected the UK holiday, but it was not obviously weak at DM12.8bn, up from DM12.1bn last Friday.

Financials put up a number of outperformers: Dresdner rose DM2.43 or 4.3 per cent to DM58.45 and Bayernverein and Commerzbank by 3.6 per cent each. This followed a flourish last Tuesday on friendly US data, and speculation that the sector, having underperformed in April, could be a target for rotation again this month.

In carmakers, Volkswagen was still flavour of the year, up DM41.90 or 3.6 per cent to DM1,200 after gains in first-quarter sales and profits.

Hoechst, in chemicals, underperformed again, a rise of 35 pfg at DM67.15 reflecting some disappointment with its own first-quarter figures. SAP, the software company that saw its prefs hit a low of DM311 on news of an insider trading probe, recovered to close DM2.05 higher at DM330.

There were complaints about low volume in both **AMSTERDAM**, which moved into new high ground, and in **PARIS**, which did not.

The Dutch market made winners out of last week's losers; Royal Dutch and Akzo-Nobel recovered from disappointment after their first-quarter results, rising Fl 5.50 to Fl 350 and Fl 4.30 to Fl 257.30 respectively while Heineken, the brewer, gained Fl 8.50 at Fl 341.80.

The French, with more ground to make up, took heart from a poll putting the centre-right coalition in a comfortable, but reduced lead over the socialists. The CAC 40 index rose 17.53 to 2,672.84. Paribas closing FFr11.20 higher at FFr371.80 after Massonaud, the broker, raised its rating on the stock to "buy" from neutral. Accor, the hotels group, put on FFr24 or 2.8 per cent at FFr870 although it denied an agency report that said it wanted to sell its US Motel 6 chain, or to dispose of the property assets and retain the management contracts.

MILAN edged lower on losses in HPI, the industrial portfolio of the Gemina holding group, after the failure of its planned merger with Marzotto, the clothing group, and as a number of issues traded ex-dividend. The Comit index lost 0.13 to 771.87.

HPI fell L64.7 to L863.4 but Marzotto lost just L9 to L12,417 on news that the merger plan would not go ahead. Mediobanca, the merchant bank that brokered the plan, lost L460 to L10,166.

MADRID had the gain of the day in Europe, the general index peaking 12.50 or 2.4 per cent higher at 528.85. The key banking and utilities sectors each rose 3.1 per cent

In the former, Banesto, once the sick man of the industry, gained Pta115 or 8.85 per cent at Pta1,415; in the latter, Endesa, next up on the privatisation catwalk, closed Pta490 or 4.8 per cent higher at Pta10,750.

STOCKHOLM had a repeat showing of the news that Swedish car registrations rose 48 per cent in April, and Volvo made more of the news than it did last Friday, the B shares rising another SKr10 to SKr212.

The general index rose 46.87 to 2,734.49 with forestries 2.9 per cent ahead. Skanska B rose SKr10.50 to SKr346 after the construction company said that it intended to redeem a tenth of its equity at SKr400 a share, and that earnings would rise from SKr31.60 a share to SKr33.90 as a result.

ISTANBUL closed 2.7 per cent lower in response to continuing political tensions, disappointing first-quarter corporate results and higher than expected April inflation. The IMKB-100 index lost 39 at 1,392.

Analysts noted that on Saturday Mr Necmettin Erbakan, the Islamist prime minister, ruled out early elections as a solution to his continuing dispute with the secularist army over Islamist activism.

ATHENS extended its winning streak as the general index pierced the 1,500 point level to close 2.3 per cent better at a near seven-year high. A strong performance by banks and industrial heavyweight stocks led the market up and the index finished 33.45 higher at 1,518.42.

Analysts said that banks, up 2.2 per cent on the day, were in demand in view of the windfall gains being made on bond portfolios from sharp interest rate cuts. The industrial sector rose 1.6 per cent, helped by a strong performance in food manufacturing stocks.

Written and edited by William Cochrane and Michael Morgan.

Hong Kong up 2.4%, China shares roar ahead

ASIA PACIFIC

Friday's strong rally on Wall Street prompted heavy buying of **HONG KONG**'s interest rate-sensitive property and banking stocks. The Hang Seng index jumped 317.64 or 2.4 per cent to 13,399.34 after touching a session high of 13,439.78. Turnover of HK$14.9bn was the fifth heaviest ever recorded.

Analysts noted some switching out of red chips after their recent strong run.

HSBC led the market, crossing the HK$200 level for the first time and hitting a record intra-day high at HK$204. It closed at HK$202, up HK$4.50.

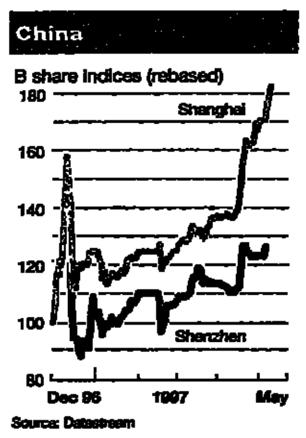
Rate-sensitive property stocks, however, provided the strongest performing sector, further supported by hopes that a consolidation in the property market was coming to an end.

Cheung Kong rose HK$2.75 to HK$73.50, Sun Hung Kai Properties added HK$3 to HK$90.50 and Henderson Land rose HK$3 to HK$70.50.

SHANGHAI's hard currency B shares rocketed 6.1 per cent higher as overseas and domestic investors snapped up blue chips and the three Pudong real estate shares due to strong confidence in the market outlook and on the view that the B index had underperformed its domestic A counterpart.

The B index surged 5.598 to 96.817 in turnover of $31.6m. The A share index was 3.9 per cent higher, in spite of news that the national share issue quota has been raised from the existing Yn10bn to Yn15bn. Analysts said that investors apparently took the view that there was enough hot money in the market to absorb such a sum.

China



Source: Datastream

SHENZHEN was carried along on the same optimistic wave. The B index rose 4.87 or 2.8 per cent to 181.14, while the A share index climbed 3.8 per cent.

MANILA staged a remarkable technical recovery, the index rebounding by 130.77 or 5 per cent to close at its intra-day high of 2,736.42. Volume was heavy at 10.9bn shares, worth 4.2bn pesos.

There was better news. Inflation in April fell from 4.8 per cent to 4.6 per cent year on year although there had been predictions of a further rise. In the embattled real estate sector, Megaworld Properties recovered 1.10 pesos or 19.3 per cent to 6.80 and Ayala B by 8.75 pesos or 20.5 per cent to 22.

However, analysts, after a 9.3 per cent fall last week and a 24.4 per cent one since February 3, were unwilling to bet that the worst was over.

On the day, the successful listing of Premiere Entertainment Productions, the first Philippine film producer to go public, helped boost confidence in the market. Its small float of 180m shares, heavily supported by the local Chinese community, opened at 1.10 pesos and ended near its peak at 1.26 against an offer price of 1 peso.

TAIPEI, which gained 1.6 per cent on bargain-hunting on Saturday, saw the weighted index subside by 45.24 to 8,269.43, off an intra-day low of 8,213.12. Turnover was T$80.9bn, down from recent levels of T$100bn plus.

Sentiment was dampened by a student protest to demand the resignation of Lien Chan, the Taiwanese premier, following a mass demonstration on Sunday against the government's failure to check a spate of violent crimes; the protests were triggered by the kidnap and murder of a famous actress' teenage daughter.

Tokyo, Seoul and Bangkok were closed for public holidays yesterday

SYDNEY tried to respond to Wall Street but the All Ordinaries index eventually closed only 1.1 higher at 2,492.7, off a high of 2,509.9, in turnover of A$873.6m.

Analysts said that the fall-out from the Bre-X scandal would have a short-term impact on small mining and exploration companies. Golden Valley, which has a disputed claim on part of the Busang project, fell 14 cents to 38 cents. The gold index closed down 8.6 at 1,549.0 with Normandy down 3 cents at A$1.57, and Sons of Gwalia 8 cents lower at A$5.50.

DHAKA was higher for a sixth straight session, jumping 6.3 per cent as the market regained confidence after reports that the bourse council and the Securities and Exchange commission could soon be overhauled.

The benchmark index rose 65.16 to 1,102.37, adding to Saturday's 2.1 per cent rise and Sunday's 6 per cent advance. That followed news that four executives of the Beximco group of companies, accused of stock price manipulation, had won a court order staying proceedings against them.

Last month the market authorities filed cases against 30 brokers and firms for the alleged price manipulation that brought turmoil to the market last year. The Beximco group of companies account for 27 per cent of market capitalisation.

KARACHI saw selling pressure in Hub Power, PRs0.80 down at PRs36.90 on a newspaper report that the Pakistan government plans to renegotiate power purchase tariffs with private power companies. The KSE-100 index fell 4.24 to 1,538.11.

South Africa golds higher

Gold shares finished stronger in Johannesburg after an unexpectedly sharp rise in the bullion price. Industrials were also higher, boosted by positive sentiment about the outlook for the domestic economy and supported by the early strength on Wall Street.

The overall index rose 41.4 to 7,190.4; golds gained 24.1 to 1,205.7 and industrials added 24.9 at 8,563.4.

Among mining stocks, boosted by a surprise $3 an ounce rise to $343 in the bullion price, Kloof gained 90 cents to R30.90. Dries added 110 cents at R38.50 and Freegold gained 140 cents to R31.50.

The financial sector was helped by advances in Nedcor, 3.1 per cent stronger at R93, and Stanbic, which rose 2.9 per cent to finish at R211.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 2 1997								THURSDAY MAY 1 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	228.73	0.2	209.57	183.24	205.54	193.92	0.3	3.92	228.19	208.33	182.13	203.88	193.28	228.73	188.44	211.84
Austria (24)	181.40	0.5	166.20	145.32	163.01	162.94	1.0	1.95	180.58	164.86	144.13	161.34	161.28	195.04	174.70	187.29
Belgium (26)	243.65	0.0	223.24	195.19	218.95	214.34	0.6	3.34	243.60	222.40	194.43	217.65	213.07	243.65	205.89	209.02
Brazil (30)	248.58	0.9	227.76	199.14	223.38	486.90	1.0	1.55	246.33	224.80	196.62	220.09	482.26	248.58	157.23	157.83
Canada (114)	196.64	2.7	180.17	157.53	176.71	196.84	1.9	1.98	191.45	174.79	152.81	171.06	193.16	203.31	154.12	161.38
Denmark (32)	360.86	–0.1	330.63	289.09	324.28	323.01	0.5	1.57	361.41	329.96	288.46	322.91	321.49	378.98	291.89	295.17
Finland (28)	260.29	0.3	238.48	208.52	233.90	284.43	1.2	1.60	259.48	236.90	207.11	231.84	281.04	268.58	183.06	187.18
France (91)	218.67	0.2	200.35	175.17	196.50	198.89	0.6	2.85	218.17	199.18	174.13	194.93	198.66	226.25	186.94	197.68
Germany (59)	201.32	–0.1	184.45	161.28	180.91	180.91	0.5	1.56	201.48	183.94	160.81	180.01	180.01	207.65	164.47	168.50
Hong Kong (66)	468.55	0.3	429.30	375.36	421.05	466.05	0.3	3.22	467.24	426.58	372.94	417.47	464.71	514.49	407.55	429.81
Indonesia (27)	223.75	–0.1	205.01	179.25	201.07	333.83	–0.2	1.64	224.07	204.57	178.84	200.20	334.43	-	-	–
Ireland (16)	334.10	0.2	306.11	267.65	300.23	315.65	0.3	3.03	333.26	304.25	265.99	297.78	314.66	343.35	270.08	274.72
Italy (59)	88.20	0.1	80.81	70.66	79.26	112.84	0.7	2.20	88.12	80.45	70.33	78.73	112.03	96.32	73.26	83.47
Japan (485)	118.86	0.7	108.90	95.22	106.81	95.22	1.1	0.82	118.03	107.76	94.21	105.46	94.21	161.12	107.57	161.12
Malaysia (107)	538.72	1.7	493.59	431.57	484.10	520.46	1.8	1.23	529.56	483.49	422.70	473.17	511.27	660.85	512.47	583.57
Mexico (27)	1350.38	0.5	1237.27	1081.80	1213.49	11682.33	0.2	1.24	1343.57	1226.64	1072.39	1200.44	11663.74	1445.66	1110.35	1240.73
Netherland (19)	352.82	–0.9	323.27	282.65	317.05	313.11	–0.3	2.50	355.94	324.96	284.10	318.02	314.17	357.18	279.88	288.80
New Zealand (14)	86.00	0.7	78.79	68.89	77.28	66.08	0.5	4.30	85.39	77.96	68.15	76.29	65.74	95.60	75.94	83.08
Norway (41)	295.36	–0.7	270.62	236.61	265.41	284.42	–0.5	2.15	297.31	271.43	237.30	265.64	285.82	321.23	243.72	250.17
Philippines (22)	156.84	-1.2	143.70	125.65	140.94	206.15	–1.2	0.90	158.74	144.92	126.70	141.83	208.69	-	-	–
Singapore (43)	369.51	1.4	338.56	296.02	332.05	245.42	1.6	1.15	364.27	332.57	290.75	325.46	242.61	446.01	360.06	438.79
South Africa (44)	362.32	0.2	331.97	290.25	325.59	352.56	0.3	2.39	361.52	330.06	288.56	323.01	351.43	370.12	301.49	367.63
Spain (35)	229.64	–0.2	210.40	183.97	206.36	253.64	0.1	2.58	230.17	210.14	183.72	205.65	253.27	230.17	171.81	176.03
Sweden (49)	421.39	1.7	386.09	337.58	378.67	488.94	2.0	2.14	414.19	378.15	330.59	370.07	479.48	448.64	334.35	341.05
Switzerland (38)	271.81	0.7	249.04	217.75	244.25	248.10	1.1	1.32	270.06	248.56	215.55	241.29	245.45	271.81	229.36	239.47
Thailand (43)	75.64	0.0	69.30	60.59	67.97	76.63	–0.1	4.08	75.66	69.07	60.39	67.60	76.67	184.18	73.98	182.22
United Kingdom (211)	286.05	–0.1	262.09	229.16	257.05	262.09	0.2	3.75	286.49	261.56	228.67	255.97	261.56	287.23	226.85	230.14
USA (653)	329.19	1.9	301.61	263.72	295.82	329.19	1.9	1.85	323.11	294.99	257.89	288.69	323.11	331.54	254.79	262.75
Americas (824)	301.09	1.9	275.87	241.21	270.57	253.54	1.9	1.84	295.49	269.77	235.85	264.01	248.92	303.45	233.09	240.22
Europe (726)	248.71	0.0	227.87	199.24	223.49	232.80	0.5	2.71	248.62	226.99	198.44	222.14	231.72	248.97	204.71	207.84
Nordic (150)	366.95	1.0	336.21	293.97	329.75	366.42	1.4	1.97	363.44	331.81	290.09	324.73	361.53	385.85	291.45	294.21
Pacific Basin (883)	137.57	0.7	126.05	110.21	123.62	108.27	1.0	1.35	136.65	124.76	109.07	122.10	107.24	174.23	127.18	174.23
Euro-Pacific (1609)	183.91	0.3	168.50	147.33	165.27	155.29	0.7	2.11	183.34	167.38	146.33	163.81	154.24	191.51	173.55	188.12
North America (767)	321.07	1.9	294.18	257.21	288.52	320.43	1.9	1.85	315.02	287.61	251.44	281.46	314.51	323.69	248.65	256.44
Europe Ex. UK (515)	223.12	0.1	204.43	178.74	200.50	211.70	0.6	2.12	222.81	203.42	177.84	199.07	210.41	224.70	185.65	190.43
Pacific Ex. Japan (398)	296.12	0.6	271.32	237.23	266.10	257.32	0.6	2.87	294.42	268.79	234.99	263.05	255.72	320.65	269.97	296.68
World Ex. US (1824)	187.57	0.4	171.86	150.26	168.55	161.38	0.7	2.10	186.78	170.52	149.08	166.88	160.20	193.47	176.94	189.19
World Ex. UK (2266)	227.60	1.2	208.53	182.33	204.53	204.17	1.4	1.78	224.80	205.24	179.43	200.86	201.39	228.59	199.58	209.68
World Ex. Japan (1992)	290.77	1.2	266.41	232.94	261.29	281.84	1.3	2.20	287.38	262.37	229.37	256.76	278.21	292.72	233.10	240.02
The World Index (2477)	232.60	1.1	213.12	186.34	209.02	209.49	1.3	1.96	230.06	210.04	183.63	205.55	206.87	233.38	202.32	211.56

 Latest prices were unavailable for this edition.